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World Business Newspaper http://www.FT.com WEDNESDAY SEPTEMBER 18 1996

Europe's most respected companies
● The joint FT/Price Waterhouse survey of corporate excellence, as judged by Europe's top managers
Separate section

Gold held in UK may be given to holocaust victims

Nazi gold which has lain in the Bank of England's vaults for 50 years could be transferred to the families of holocaust victims. UK foreign secretary, Malcolm Rifkind, yesterday said he would raise the possibility of transferring the metal, which has a current value of about £31m ($48.36m). Recovered from Germany after the second world war, the gold is held in the name of the UK, US and France. Page 10

Hackers threat: Hacker attacks on commercial Internet sites are raising fears for the security and reliability of the world wide computer network. Sites have been swamped with false requests, tying up the computers and denying legitimate users access. Page 16; Western skills shortage, Page 10

Italy's rail probe deepens: Italian police made more arrests as prosecutors deepened their probe into alleged corruption and fraud involving Italy's state railway. Page 2

China threat over Dalai Lama: China threatened Australia with trade retaliation if prime minister John Howard goes ahead with plans to meet the Dalai Lama, Tibet's exiled spiritual leader. Page 16

Czech crisis: The Czech republic's central bank stepped in to prevent a liquidity crisis at Agrobanka, the country's biggest private bank, as financial ripples spread from a previous bank failure. Page 16

Nikko Securities, one of Japan's top four brokers, slashed its earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange hit commission revenue. Nikko now expects interim unconsolidated recurring profits of Y20bn ($181.2m) before extraordinary items and tax - down 23 per cent from the previous year. Page 20; World stocks, Page 36

Cuba undaunted: Cuba has negotiated deals with 40 companies in the eight months since the introduction of the US Helms-Burton law penalising non-US companies for doing business with Havana, government officials said.

Samsung dumps Fokker hopes: South Korean conglomerate Samsung played down hopes that it was poised to acquire Fokker and denied having signed a letter of intent to purchase the bankrupt Dutch aircraft maker. Page 17

Experts check Chernobyl: Radiation levels surged inside the ruined fourth reactor at Ukraine's Chernobyl nuclear power plant. Experts are investigating whether this could trigger a chain reaction. The reactor exploded 10 years ago and was encased in concrete.

Izetbegovic leads in Bosnia poll: Bosnia's Moslem president Alija Izetbegovic looked set to beat his Serb rival in the race to head the new collective leadership.

Yeltsin set to stay in hospital this week:

Russian president Boris Yeltsin (right) will probably spend the rest of this week in a Moscow hospital undergoing tests before planned heart surgery. But he was well enough to receive prime minister Victor Chernomyrdin (left) for an hour. Page 3

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■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,872.55	(-16.65)
NASDAQ Composite	1,198.76	(+5.62)
Europe and Far East		
CAC40	2,080.86	(-5.33)
DAX	2,628.03	(-1.79)
FT-SE 100	3,972.3	(-4.9)
Nikkei	21,318.59	(+467.93)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.201%
Long Bond	96½
Yield	6.987%

■ OTHER RATES

UK: 3-mo Interbank	5¾%	(same)
UK: 10 yr Gilt	99¾	(99⅞)
France: 10 yr OAT	107.76	(107.89)
Germany: 10 yr Bund	100.55	(100.49)
Japan: 10 yr JGB	101.2545	(100.714)

■ NORTH SEA OIL (Argus)

Brent Dated	$21.90	(22.545)

■ GOLD

New York Comex		
Dec	$386.1	(385.3)
London		
close	$383.45	(382.8)

■ DOLLAR

New York lunchtime		
£	1.55535	
DM	1.51335	
FFr	5.1435	
SFr	1.24405	
Y	110.385	
London		
£	1.5551	(1.5566)
DM	1.5143	(1.5095)
FFr	5.1461	(5.15)
SFr	1.2437	(1.2398)
Y	110.2	(110.365)
Tokyo close	Y 110.15	

■ STERLING

DM	2.3546	(2.35)

Albania	Lek 275	Gibraltar	£0.75	Lithuania	Lit 18.00	Qatar	QR13.00
Austria	Sch27	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr78	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.20	Iceland	IKr260	Neth	Fl 4.75	S.Africa	R12.00
Czech Rp.	Kc50	India	Rs75	Nigeria	Naira120	Spain	Pta250
Denmark	DKr20	Israel	Shk8.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3500	Oman	OR1.70	Switz	SFr3.70
Estonia	EK 25	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM15.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils 750	Portugal	Esc350	Turkey	L120,000
Germany	DM4.20	Lebanon	[illegible]	[illegible]	[illegible]	UAE	Dh13.00

Leeson's bid to be a star led to Barings crash

By John Gapper and Nicholas Denton

Mr Nick Leeson, the former derivatives trader for the merchant bank Barings, started hiding losses in a secret account within weeks of starting trading in Singapore in July 1992, according to an investigation by FT reporters.

The investigation has established that Mr Leeson, who is in jail in Singapore, used his hidden account numbered 88888 to absorb losses caused by selling derivatives to customers of Barings at artificially low prices. The investigation – to be published in a book next week – has found that in September 1992, Mr Leeson in effect gave away £450,000 in pricing subsidies to investment banks and funds that were buying futures through Barings.

It found that the root of the Barings collapse lay in an effort by Mr Leeson to make himself seem a star executor of orders on Simex, the Singapore futures exchange, by giving Barings' customers improvements on market prices.

ALL THAT GLITTERS
The Fall of Barings
BARINGS Page 8

Mr Leeson does not seem to have been motivated by personal gain, but was attempting to ensure a smooth start in his new job. However, the losses created by his improvements to futures prices later spiralled out of control.

Official inquiries into the collapse in February 1995 have highlighted the rapid growth in hidden losses in 1994, when Mr Leeson was trying to gamble his way out of trouble. Barings finally collapsed when the losses reached £830m.

But it has not been clear why Mr Leeson started to use his hidden account to absorb losses in 1992. Mr Leeson himself has claimed that he built up losses in an effort to cover up "errors" made by junior traders whom he supervised.

The investigation, drawing on interviews with traders who worked with Mr Leeson, confirmed that most of these losses were not caused by errors. Instead, they stemmed from Mr Leeson's use of account 88888 to subsidise his execution of trades.

By spring 1993, Mr Leeson's execution of some types of futures trading was so far out of line with the rest of the market that Barings' customers were charged an extra commission for the opportunity to deal through him.

There is no suggestion that the banks that bought futures through Mr Leesoo's unit Baring Futures – including Banque Paribas, Fuji Bank and Chemical Banking – knew why they were being offered relatively cheap prices.

However, other traders employed by Barings suspected that Mr Leeson might have been achieving such prices by taking risks on market movements.

Nine former managers of Barings, including Mr Peter Norris, its former chief executive of investment banking, have either been banned for up to three years for failing to prevent the collapse, or face such bans by City regulators.

EU seeks to use $1.2bn surplus for beef aid

By Caroline Southey in Brussels and Alison Maitland in London

European Union farm ministers yesterday made a controversial bid to use a surplus of about Ecu1bn ($1.27bn) in the 1996 farm budget to aid the ailing beef sector.

They rejected a proposed cut in aid to cereal farmers to fund a mop-up of surplus beef stocks, caused by falling consumption.

The French initiative could pit farm ministers against finance ministers intent on claiming back EU surpluses to help cut national budgets to meet the criteria for monetary union. It could also contravene EU budgetary procedures.

The farm ministers also rejected a plea from Britain to renegotiate a cut in the cull of 125,000 cattle, agreed by EU members in June in return for a phased lifting of the export ban on British beef.

The British government was last night set to tear up the agreement, though it may press ahead with its own limited cull of about 22,000 cattle at high risk of contracting BSE or mad cow disease from their diseased mothers.

A British official said Mr Douglas Hogg, the agriculture minister, would report to the cabinet committee on BSE tomorrow. The chances were high that the full cull would be abandoned, he said.

Mr Franz Fischler, European Commissioner for agriculture, expressed "extreme concern" at possible British action to reduce the cull.

EU officials rejected suggestions by Mr Karel Pinxton, the Belgian farm minister, that the EU might retaliate by cutting off funds earmarked to help Britain cope with the crisis.

Commenting on the call for the EU surplus to be used to help the beef sector, Mr Fischler said the money had not been earmarked for beef production and would normally be returned to member states.

Spending the money before the end of the 1996 financial year on October 15 would prevent the surplus being returned to member states' coffers.

Mr Fischler warned that a legal basis for shifting money between the 1996 and 1997 budgets would have to be found.

An EU official said the proposal would still have to "get past national budget authorities. They are unlikely to be sympathetic, with the Maastricht criteria for monetary union hanging over them."

The Commission has estimated that Ecu1.3bn will be needed to take excess beef stocks off the market. Mr Fischler has proposed raising the money by cutting aid to arable farmers, including a reduction of 7 per cent in payments to cereal farmers.

Bnt most members states rejected his proposals. Britain, Denmark and Sweden were the only countries to support the cut in cereal aid.

French finance minister Jean Arthuis (left) and his German counterpart Theo Waigel told the meeting of the Franco-German economic council that their countries' economies were developing in parallel and would grow faster next year Picture: Reuter

Paris and Bonn vow to meet Emu date

By Peter Norman in Kempten, Germany

Germany and France yesterday pledged to bring their deficits back below 3 per cent of gross domestic product next year so that the European single currency can start as scheduled on January 1, 1999.

After a regular six-monthly meeting of the Franco-German economic council, Mr Theo Waigel, the German finance minister, and Mr Jean Arthuis, his French counterpart, said the countries' economies were developing in parallel and would grow faster next year.

Mr Arthuis – who is due to present his 1997 budget to the cabinet today – forecast that French GDP would grow by 2.3 per cent in 1997 up from 1.3 per cent this year, while the German government expects faster growth of between 2 and 2.5 per cent in 1997 from about 1 per cent this year.

The ministers also reported progress towards agreement on Germany's call for a stability pact to ensure that fiscal deficits stay under control once European economic and monetary union has been established.

However, differences of detail remain, making it uncertain whether the meeting of European economic and finance ministers in Dublin this weekend will reach agreement on the issue.

Mr Waigel said France and Germany agreed that a stability pact was essential for the welfare of Europe's citizens and the success of Emu, while Mr Arthuis underlined the need for cootinuing budget discipline.

But, while Mr Waigel insisted that France and Germany had moved "very far" on the stability pact in recent months and were "clear about all decisive points", he said discussions still had to be held on the sanctions that would be applied to countries that failed to keep their deficits below 3 per cent. In particular, the size of the deposits and fines that would be levied still had to be clarified.

Mr Hans Tietmeyer, the Bundesbank president, said the stability pact would have

Continued on Page 16
Arthuis's Emu faith, Page 2

Olivetti shares fall again as investor confidence ebbs

By Andrew Hill in Milan and Paul Taylor in Paris

Pressure on Olivetti to clarify its financial and trading position was increased by Italian stock market supervisors and magistrates yesterday, as investors' confidence in the information technology group continued to sbb.

The group's shares fell a further 10 per cent to another record low of L465 as Olivetti executives worked on a swift response to 16 detailed questions posed by Consob, the stock market watchdog.

Judicial sources at Ivrea, where Olivetti has its headquarters, confirmed that magistrates were investigating Mr Carlo De Benedetti, Olivetti's former chairman, and Mr Antonio Tesone, his successor, about allegations that the company issued misleading half-year results. Mr Francesco Caio, the chief executive, is also under investigation. Olivetti was expected to issue a partial response to Consob's questions, first posed by stock market regulators in meetings with Mr Caio and other directors last week.

The most important questions relate to the valuation of Olivetti's stakes in subsidiaries and associated companies, the reasons behind a L200bn ($132.10m) first-half provision for future disposals and restructuring, and Olivetti's exposure to credit risk on certain large contracts.

On Monday, Consob insisted that Olivetti issue a statement within 24 hours to allay market concerns about the company's financial situation.

The watchdog's move followed Olivetti's postponement of meetings with analysts in Milan and London, at which Mr Caio had been due to explain the group's first-half results. The shares have lost nearly 40 per cent of their value since the beginning of the month. A day after Mr De Benedetti's resignation as chairman, Mr Renzo Francesconi resigned as director-general in charge of finance at the holding company.

The group has denied allegations by Mr Francesconi that the half-year results wsre worse than those published.

Meanwhile, Siemens Nixdorf Information Systems, the computer unit of Siemens, the German industrial group, ruled out purchase of, or partnership with, Olivetti's problematic personal computer subsidiary.

Mr Caio wants to move Olivetti away from the PC business to become more of a broad-based information technology and telecommunications group. He has ruled out closing down the subsidiary, which has been a source of heavy losses and restructuring costs.

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Dutch budget aims at single currency

By Gordon Cramb in The Hague

The Dutch government yesterday unveiled a 1997 budget designed to assure the guilder entry into a single European currency – holding the public deficit well within the criteria agreed for monetary union and bringing down further the troublesome level of state debt.

Mr Gerrit Zalm, finance minister, was also able to offer the corporate sector a better taxation regime for dividends and other financial income. For industry there were modest benefits aimed at stimulating research and development, and individuals gain from a Fl 1bn ($590m) cuts in tax and social security levies.

The budget, otherwise broadly neutral, reflects growth in gross domestic product, forecast to accelerate to 2.75 per cent in 1997. This is up from an expected 2.5 per cent this year, a level already above the European Union average.

Like other countries seeking to join Emu, the Netherlands' eligibility will be judged on the way next year turns out. Domestic inflation and interest rates, as well as the exchange rate, are all likely to stay comfortably within Maastricht treaty limits.

The government deficit is to be brought down to 2.2 per cent of gross domestic product, well below the target ceiling of 3 per cent set for aspirant members and down from the 2.6 per cent expected for this year. In 1995 the deficit still stood at 4 per cent of GDP.

Government debt is projected to emerge at 76.2 per cent of GDP, but the reduction from 79.7 per cent recorded in 1995 and the 78.8 per cent expected for this year was, the finance ministry maintained, enough to established the "clear downward trend" allowed as a fallback position under Maastricht.

In addition to economic growth, cuts in government spending and official subsidies, as well as increased public sector efficiency, have helped bring about the improvement.

Prof Lex Hoogduin, a central bank economist, told an Institute of Directors seminar in The Hague yesterday that the projections were vulnerable to setbacks in the state's attempts to bring down its outgoings on welfare.

Social security payments will remain linked to wages but, in a greying society, state pensions are to be brought under scrutiny with a likelihood that provisions will be reduced in the future.

Of the tax changes, one of the most significant will allow an effective rate of just 7 per cent for multinationals which centralise their finance activities in the Netherlands. A risk reserve can be created to absorb interest or leasing income and service fees. The shift makes the country more competitive with Belgium and Ireland, which have been seeking to attract such businesses.

Dividends accrued by companies will under another measure be subject to a total tax levy of 51.3 per cent. The previous rate, in the absence of a system such as the UK's advance corporation tax, was at times above 70 per cent.

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Relaxed finance minister vows France will fit the Maastricht bill

Arthuis holds firm in Emu faith

By David Owen and Andrew Jack

For a man who will today unveil the most important and closely scrutinised French budget of recent years, Mr Jean Arthuis seems in remarkably relaxed mood.

At dinner last week in the finance ministry's vast modern Bercy headquarters in east Paris, he indulged in a cigar and the occasional joke before returning to his paperwork.

Did the finance minister's good humour suggest the doubters had nothing to worry about? That the detail of the budget would not after all finally shoot the government's fox by making it clear France had next to no chance of qualifying for economic and monetary union in 1999?

Certainly, he insisted as firmly as ever that the government would hit its target of restricting the general budget deficit to 4 per cent of gross domestic product in 1996 and 3 per cent in 1997.

This is the maximum permitted by the Maastricht treaty's convergence criteria which set out conditions European Union member states must fulfil to join the planned single currency.

But he went considerably further, stressing that the aim for 1998 was to hold the deficit at 3 per cent, and that the five-year target was to cut it to less than 2 per cent.

And he claimed that today's finance bill would be an important landmark in its own right since, for the first time in many years, it would provide for a level of government spending that was no higher than the previous year, after taking account of inflation.

"That is very good news," he said. "France was late to realise that high public spending risked stifling the economy and destroyed the potential for creating jobs. There was a feeling that ever higher public spending was inevitable. But now the direction is turning. This supposedly ineluctable trend has at last been stopped."

> ❛It is essential not to allow any backsliding either on the criteria, or on the proposed timetable. We want the treaty, all the treaty and nothing but the treaty. I refuse to imagine the hypothesis in which monetary union will not take place.❜

French Finance Minister Jean-Arthuis

So far, so impressive. But Mr Arthuis appeared to acknowledge that the spending clampdown could have been tougher. Plans to reduce the country's 2m-strong civil service by just 6,000-7,000 in 1997 meant that for every 10 civil servants who retired, only one would not be replaced. "Perhaps it would have been wise not to have replaced a larger number," he said.

In his discussion of the detail of the government's deficit arithmetic, he said nothing likely to alter the strengthening impression of international observers that if France did fit the Maastricht bill, it would be thanks to the imaginative handling of certain exceptional items. These include a one-off FFr37.5bn ($7.4bn) payment from France Télécom, in return for the transfer of certain pension liabilities, which will count for the purposes of the 1997 deficit.

On this year's deficit, Mr Arthuis said the government would hit its target of 4 per cent of GDP even if the deficit of the social security system was significantly higher than the original FFr17bn projection. Lower-than-expected receipts as a result of the country's sluggish growth and near-record unemployment mean that many observers now expect the shortfall to be about three times this figure.

Mr Arthuis said this gap would be offset by a number of factors, including a surplus of approximately FFr15bn from Unedic, the government's unemployment benefit fund; a small surplus from the Cades, a new body set up to refinance the country's accumulated social security debt from previous years; and "good news" from the local and regional authorities.

He also indicated that the government would avoid including the FFr2.6bn cost of its recent rescue package for Crédit Foncier, the specialist property bank, by paying for it out of proceeds from France's extensive privatisation programme. These are not normally counted for the purposes of the Maastricht criteria.

As for 1997, most analysts estimate that the France Télécom payment – equivalent to nearly 0.5 per cent of GDP – would not be quite enough for the government to hit its vital 3 per cent target unless the economy grows faster than the 2 per cent to 2.25 per cent currently expected.

In this case, many expect ministers to turn to a more customary piggy bank, the Caisse des Dépôts et Consignations, a state-owned financial institution, to make up the difference. The government has passed no comment on recent reports that it is planning to take FFr18.5bn from this source in 1997, and Mr Arthuis bridles at any suggestion that there would be anything wrong in such a move.

"The Caisse des Dépôts is always complaining that we are taking their money," he said. "But what does this mean? It is a bit like you drawing money out of your account at Barclays Bank. The Caisse des Dépôts manages money for the account of the state."

Nevertheless, the fact that France is already resorting to such special payments is causing concern among some economists, who fear the government may have nothing left to pull out of the hat if growth is further impeded by events such as a recurrence of last winter's crippling strikes. Mr Arthuis argued simply that renewed industrial action on the scale of last year was unlikely. "People are more reasonable this year," he said.

In what could be interpreted as a further sign of confidence, he made it clear he was against any move to make the Maastricht requirements less onerous.

"It is essential not to allow any backsliding either on the criteria, or on the proposed timetable," he said. "We want the treaty, all the treaty and nothing but the treaty. I refuse to imagine the hypothesis in which monetary union will not take place."

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Editorial Comment, Page 15

EU MPs to demand state TV protection

By Neil Buckley in Strasbourg

The European parliament is today expected to issue a strong call for state-owned broadcasters to be protected by European legislation against fast-growing commercial companies.

A report by Ms Carole Tongue, a British member of the parliament's dominant Socialist bloc, calls for legislation allowing "stable and realistic state aid" to continue to public broadcasters. It also calls for satellite and cable companies to be barred from being exclusive transmitters of sports events, and for state channels to be allowed to bid jointly for TV rights without falling foul of EU competition rules.

The controversial report was debated yesterday and is expected to be adopted by a majority today, although a series of amendments has been tabled by the Christian Democrat European People's Party, the second biggest bloc. The EPP says the report fails to recognise the importance of competition in broadcasting, and the benefits brought by commercial channels.

The report warns that public service broadcasters' audience share in the European Union almost halved from 82 per cent in 1984 to 46 per cent in 1994, as commercial companies such as Germany's Kirch and Bertelsmann, France's Canal Plus, and Mr Rupert Murdoch's BSkyB have expanded.

It says that with state broadcasters facing hundreds of new digital channels, public service broadcasting is in danger of becoming marginalised as it is in the US, with European TV dominated by downmarket programming on largely pay-TV channels.

Although the parliament's resolution is not binding, a strong vote in favour would put pressure on the European Commission to bring forward proposals.

It comes as public service broadcasters find themselves under attack for receiving unfair support. Mr Karel Van Miert, EU competition commissioner, is investigating complaints from commercial broadcasters that public channels including France 2 and France 3, Portugal's RTP, and Spain's TVE benefit from unfair state aid.

The right of state channels to club together to bid for sporting rights was also challenged by a European Court ruling in June.

The parliament resolution says public funding should be regarded as legitimate for public broadcasters, even if they can supplement this through other means such as advertising provided funding is proportionate and they are fulfilling public service obligations.

The resolution also says that public service broadcasters must be able to reach audiences through all available technology.

A legal adviser at the European Court of Justice has told Sweden, which bans TV advertising aimed at children, that it cannot restrict commercials broadcast from another EU state, Reuter reports from Brussels.

Advocate-General Murray Jacobs issued an opinion yesterday saying the European Union's television without frontiers directive "prevents a member state from taking action against television advertisements broadcast from another member state".

Opinions by the advocates-general are only advisory, but are often followed by the court in later rulings. A ruling against Sweden could prevent it from intervening against advertisements broadcast from other EU countries.

Europe's advertising industry sees the case as a critical test of its right to provide services across the EU. Sweden is the only EU country that has a general ban on advertising aimed at children under 12. Mr Jacobs said EU law allowed Sweden to ban such commercials if both the advertiser and the broadcaster were based there and they were broadcast on a domestic TV channel received only by viewers in the country.

Netherlands seeks more power for EU

By Gordon Cramb in The Hague

The Dutch government yesterday set out its stall for its presidency of the European Union, which will run for six months from January during a crucial period in moves towards further integration.

A foreign ministry document published with the annual budget papers notes that the Inter-Governmental Conference launched in Turin in March to review the Maastricht treaty – concluded the last time the Dutch were in the chair – is due to be concluded by mid-1997. Depending on the rate of progress, the Netherlands could be in charge while the final details are resolved.

The process would lead to a treaty which "must provide the Union with more power, effectiveness and democracy," the ministry says in an advance glimpse at a programme likely to arouse further anguish among British Euro-sceptics. "The new treaty must at the same time be more saleable, more transparent and more accessible to the public than at present," it says.

The Hague is in line with Britain on free trade and a number of budgetary issues but it does not share its restrictive view about the EU's institutional development, the document says. The paper goes on to note that the BSE 'mad cow' crisis has further complicated the UK's already awkward relations with its partners.

The Dutch presidency will also seek to "give an impulse" to enlargement of the union towards central and eastern Europe, and with it any necessary adjustments to trade and environmental policies.

It warns the US of its concern over the extra-territorial effects of laws passed by Congress which seek to inhibit multinationals from doing business with countries such as Iran, Libya and notably Cuba where ING, the Dutch financial group, this summer had to find a way around Washington legislation which restricted its ability to fund the sugar harvest.

But the foreign ministry acknowledges that there remain problems with its European continental partners in the Schengen accord, which allows for free movement of goods and people across national borders. It urges the removal of French frontier controls, seen by Paris as a necessary restraint on drugs traffic from the Netherlands. Electronic scanners to search for drugs are to be installed in Amsterdam harbour and the city's Schiphol airport.

Brussels to probe Crédit Lyonnais

By Neil Buckley in Strasbourg

The European Commission is expected today to launch an investigation into suspicions that Crédit Lyonnais, the French state-owned bank, was allowed to repurchase a former subsidiary, Société de Banque Occidentale, on advantageous terms.

The probe under state aid rules, expected to be approved by commissioners meeting in Strasbourg today, is the latest setback in the FFr45bn ($8.8bn) restructuring of the troubled bank, the largest state aid package ever approved by the Commission.

The Commission is also expected to start a state aid probe into a FFr2bn recapitalisation of Société Marseillaise de Crédit, the French regional bank, and an in-depth vetting process of Belgian plans for BFr1.5bn ($48m) aid to steelmaker Forges de Clabecq. Belgium's French-speaking Wallonia region submitted plans in June for the capital injection, plus a BFr500m debt write-off, for the heavily indebted Forges de Clabecq.

Société de Banque Occidentale was one of a number of Crédit Lyonnais assets hived off last year into a separate holding company, Consortium des Réalisations. The consortium was charged with preparing the assets for sale to competitors or back to Crédit Lyonnais under market conditions.

The French bank repurchased SDBO in February for FFr50m, which the Commission believes is well below the market price. Independent experts have valued the bank at FFr173m.

The Commission also believes competitors were not given adequate opportunities to bid for the business – there were only seven other bidders, all French – and they were not given full information. In particular, officials say, bidders were not told of a FFr274.5m recapitalisation of SDBO by the Consortium de Réalisations in January, before its resale to Crédit Lyonnais.

The French authorities will have one month to respond to the Commission's demands for information. They will also have one month to provide information concerning the three-stage recapitalisation of Société Marseillaise de Crédit.

Commission officials said a restructuring plan for the Marseilles bank submitted last November appeared incomplete and insufficient to return the bank to profit before 1998. That raised suspicions that the recapitalisation contained state aid elements contravening EU law.

EUROPEAN NEWS DIGEST

Italian rail probe widens

Italian police yesterday made further arrests as prosecutors deepened their investigation into allegations of corruption and fraud involving the Italian state railway. Police arrested two magistrates and Mr Pier Francesco Guarguaglini, chief executive of Oto Melara, the state-controlled arms manufacturer with headquarters in La Spezia, where the investigation began.

The prosecutors will today question Mr Lorenzo Necci, chief executive of the state railway Ferrovie dello Stato (FS). He and three others were arrested at the weekend in connection with an investigation into allegations of fraud, embezzlement, corruption, abuse of office, falsification of accounts and crimes against public administration.

Yesterday the La Spezia magistrates ordered police searches of a number of Rome addresses. These included the office of Raca, the FS subsidiary which was the vehicle for last year's acquisition of a 20 per cent stake in Contship Italia, a private container-handling and freight company which owns the La Spezia container terminal and is behind the revival of the port of Gioia Tauro in Calabria, southern Italy. *Andrew Hill, Milan*

Spain, Italy robust on Emu

Spain and Italy both tried to douse scepticism about their prospects for joining the European single currency at the end of a bilateral summit meeting in Valencia yesterday.

Mr Romano Prodi, Italy's prime minister, said both countries were equally determined to be part of European monetary union from the launch date of January 1, 1999. Asked if Italy's commitment to the timetable was as strong as Spain's, he said it had "the same solidity".

Mr José María Aznar, his Spanish counterpart, spoke only for his own government's position, however, reaffirming his pledge to take "all the necessary measures" to enable Spain to participate in the single currency "from the first moment". *David White, Madrid*

'Cashless' pay at VW

Volkswagen yesterday announced a new "cashless" pay scheme, under which employees will receive part of their wages in the form of a new security called a "time-value share". The scheme allows workers to build up savings to finance early retirement, or merely to use them as credit for extra holidays. *Wolfgang Münchau, Frankfurt*

Chernobyl radiation fears

Radiation levels inside the Chernobyl nuclear power plant's ruined fourth reactor rose sharply this week and a director said yesterday specialists were investigating whether this could cause a chain reaction. Mr Valentyn Kupny, in charge of the "sarcophagus" surrounding the reactor, said meters inside the cracking steel and concrete structure had shown big increases for a time on Monday. Scientists did not have full control of the nuclear fuel still inside 10 years after the explosion. *Reuter, Kiev*

EU foreign plan from Paris

France is pressing the European Intergovernmental conference (IGC) to accept its plan for a more permanent "troika" to represent the European Union in world affairs. The current troika changes every six months to accommodate the country holding the rotating presidency as well as the previous and future holders.

Mr Michel Barnier, France's European affairs minister, proposed to the IGC last week that the troika should only include the country currently in the chair together with a new "high level" foreign policy co-ordinator of the Council of Ministers and a single European Commissioner for foreign affairs which France hopes the IGC will approve. France wants to reduce the number of commissioners to around 10, with just one responsible for foreign policy which is at present split between five of the 20 commissioners.

French officials yesterday welcomed support from Germany's ruling CDU party for the new-style troika, which they also claimed had not met opposition from other EU partners. The aim is for the EU to be represented by a team that does not change totally every 18 months, but has at least two members with terms of 4-5 years. *David Buchan, Paris*

Editorial comment, Page 15

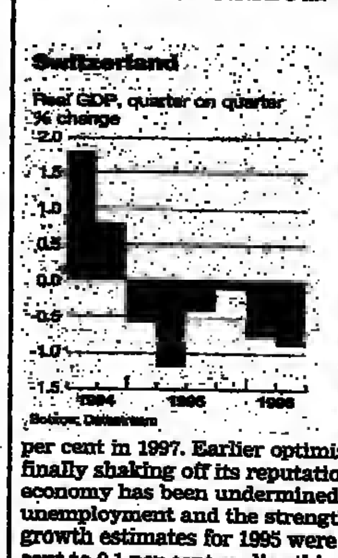
BIS under pressure on gold

The Bank of International Settlements yesterday came under intensified pressure over the fate of gold looted by the Nazis, with a demand from Mr Alfonse D'Amato, chairman of the US Senate's banking committee, to publish its records from the time.

Mr D'Amato said: "We have discovered documents at the US National Archives, some of which have only been declassified this year, and explain in great detail the numerous shipments of gold from the Reichsbank to the BIS, as well as shipments of gold to Argentina. These documents detail vast amounts of gold accepted by the BIS that might well have not been repatriated after the war." In a letter to Mr Andrew Crockett, BIS chief executive, Mr D'Amato asked for the bank's records to help his committee "close this chapter on the war once and for all". *John Authers, New York*

ECONOMIC WATCH

Swiss recession gets deeper



Switzerland's recession is getting deeper and longer. The Federal Statistics Office reported yesterday that the country's gross domestic product fell by an annualised 0.9 per cent in the second quarter. This is the sixth consecutive quarterly decline and is likely to lead to a further downgrading of growth forecasts. As recently as July the Organisation for Economic Co-operation and Development had forecast Switzerland would grow by 0.5 per cent in the current year, and by 1.7 per cent in 1997. Earlier optimism that Switzerland was finally shaking off its reputation as Europe's weakest economy has been undermined by news of rising unemployment and the strength of the currency. GDP growth estimates for 1995 were revised down from 0.7 per cent to 0.1 per cent earlier this month. Mr Peter Buomberger, chief economist of Union Bank of Switzerland, yesterday forecast a 0.6 per cent fall in GDP for the full year followed by 1 per cent growth in 1997. *William Hall, Zurich*

■ Spain's unemployment rate fell to 22.04 per cent in June from 22.27 per cent in May, according to the National Statistics Institute (INE) survey of the active population. INE said the number of jobless fell by 34,920, or 0.89 per cent, in June to 3.5m. The number of employed climbed by 20,110, or 0.21 per cent, to 9.776m in June from May. The INE figure compares with the 14.15 per cent unemployment rate in June calculated by the Labour Ministry using the number of unemployed persons registered in the offices of the National Employment Institute. *AFX, Madrid*

NEWS: EUROPE

Sweden stabilises state finances

By Greg McIvor in Stockholm

The Swedish government has completed its "seemingly impossible" mission to stabilise the state's finances and its efforts would now shift to fighting the country's serious unemployment problem, it said yesterday.

In a clear message that its fiscal grip would not be loosened, the Social Democratic administration said its goal would be to achieve a budget surplus by 1999 – for the first time since the early 1980s.

In an address to MPs at the official opening of parliament, Prime Minister Göran Persson said the government, two years into its four-year mandate, had reached "half time" in halting Sweden's negative economic trend.

"A crumbling economy has turned into a stable one. Economic decline has turned into growth," he said. "We can now devote our energies and strength to tackling... unemployment."

When the SDP took power in 1994 the public sector deficit was about 13 per cent of GDP. However, a SKr126bn ($18.8bn) four-year consolidation programme is projected to reduce the budget deficit to 3 per cent of GDP next year, and yield a zero balance in 1998.

Mr Erik Asbrink, finance minister, said recently that a permanent budget surplus might be necessary if Sweden were to remain outside a European single currency. The target would also help deflect demands from trade unions for higher public spending once economic growth picked up.

Mr Persson said joblessness was the government's "foremost and overriding task" and reiterated his determination to reduce headline unemployment from the present rate of more than 8 per cent to 4 per cent by 2000.

Labour market reforms designed to make it easier for companies to employ more workers were announced last week, and these would be bolstered by measures to simplify small business start-ups, Mr Persson said.

In addition, a bill would be presented to parliament this autumn to abolish double taxation on share dividends – an initiative chiefly targeted at small and medium-sized companies. The measures are likely to be outlined in more detail when the government unveils its 1997 budget on Friday.

Earlier, Mr Persson said he was keen to introduce a leave-from-work scheme which would encourage job-sharing by allowing workers to receive up to one year in sabbatical leave, backed by generous state benefits while absent.

A similar system has proved popular in Denmark but was yesterday rejected by Swedish unions and employers as too costly and disruptive.

Finance minister Asbrink: Permanent surplus may be needed Colin Beere

Yeltsin hunts out tax decree 'culprits'

By Chrystia Freeland in Moscow

Russian President Boris Yeltsin, who has said he will undergo heart surgery later this month, is likely to remain in hospital until the end of this week for preliminary tests, writes Chrystia Freeland.

Mr Yeltsin checked into the Central Clinical Hospital on Friday and had been expected to leave at the end of the weekend. His extended stay has prompted some speculation that the Russian leader could be in poorer physical condition than his aides have admitted.

However, Mr Sergei Yasterzhembsky, the president's spokesman, sought to calm these anxieties yesterday, insisting that the Kremlin chief was well enough to consult Mr Victor Chernomyrdin, his prime minister, for more than an hour. Russian television broadcast a brief, soundless film clip of the meeting, in which Mr Yeltsin looked relatively well and relaxed.

Russian president Boris Yeltsin yesterday delivered a tough rebuke to his cabinet from his hospital bed for preparing a controversial tax decree. His move has embarrassed the Ministry of Finance and revealed the growing muscle of the Russian business community.

In a directive which brought cheers from Russian entrepreneurs, Mr Yeltsin took his administration to task for "a superficial approach" and "inadequate consideration of the most serious issues" in the preparation of an August decree aimed at clamping down on tax evasion. He asked for the names of the "guilty" officials to be on his desk within one week.

For all its harsh, Soviet-era tone, the presidential reprimand underscored how, after centuries of autocratic rule, the Russian state is gradually making an effort to tailor its laws to the will of its citizens.

Earlier this month, in an unprecedented U-turn, the Kremlin annulled the unpopular tax decree, bowing to warnings that it could trigger a run on the banks. Opponents had said that the vaguely worded legislation might give government the right to levy taxes on all deposits and withdrawals from personal bank accounts.

In yesterday's ruling Mr Yeltsin criticised his civil servants for preparing "a decree which provoked a sharply negative reaction and acute criticism from Russian society, financial and banking circles and the mass media".

Business leaders viewed this explicit presidential instruction that Russia's once all-powerful bureaucracy must bend to public opinion as a sign that the country is developing into a responsive democracy.

"If the president is willing to change his decrees it is a sign that slowly we are becoming a civilised country. Wrong decisions can now be changed – this shows we are becoming more democratic," said Mr Andrei Potseluiev, a partner at Accounting Services, a Russian accountancy firm.

Just five years after the collapse of the Soviet Union, the tax controversy has also highlighted the mounting political and social influence of two of Russia's newest institutions – an independent media and private business interests.

According to Mr Mikhail Berger, one of Russia's most prominent economic journalists: "It was a victory for the banks and above all for the press. This campaign was organised by the press. We all participated in it."

But the embroglio has shown how, as democratic institutions take root in Russia, the government may find it difficult to pursue some of its goals. As Mr Yevgeny Yasin, the minister for the economy, argued yesterday, despite the mistakes in its formulation the contested tax decree was an attempt to close one of Russia's most gaping tax loopholes.

To avoid personal income tax, many of the country's highest wage earners are granted an interest-free loan by their employers. The money is then put in a bank account and the employees collect the monthly interest payments – which are not taxable – in lieu of salaries.

Finding ways of clamping down on popular schemes, without provoking the wrath of the business community, is likely to be the government's most pressing challenge this autumn.

UK-linked currency traders cold-call Sweden and Ireland from Denmark

By Clay Harris

A Danish-based group linked to a UK company raided earlier this year by the Serious Fraud Office has targeted investors in Sweden and Ireland in cold-calling efforts to sell high-risk currency trading schemes.

Scandex Capital Management has two sales operations, working out of separate premises in Copenhagen, according to a former salesman who left the company recently. Its managing director was also a director of one of three companies whose premises were raided in the UK in July.

The former salesman, who asked not to be identified, said the Scandex operation involved making unsolicited calls to businesses and individuals – at one point, by picking names out of the Cork telephone directory – to try to persuade them to sign contracts to undertake currency investments.

Although he had no background in foreign exchange, most recently having worked for a beer wholesaler in the UK, he said his cold calls often paid off.

When potential customers asked about Scandex's rating, he was told by managers to stress the name of Den Danske Bank, even though Scandex's only connection was that it had an account there. "Swedes are very trusting," he said.

Similar foreign exchange operations have drawn the attention of financial regulators across Europe. Moves to tighten rules governing their activity have sometimes been followed by a shift to new countries or new names.

Mr Jeremy Bartholomew-White, managing director of Scandex, was a director of Euro Currency Corporation, whose premises were raided in July. It had ceased trading in April. Mr Ian Farrell, another Euro Currency director, said in Copenhagen yesterday that he was a shareholder in Scandex and acts as a consultant to it.

Mr Bartholomew-White is also a director of Anderson Ross, which offers similar currency investments from the office and phone numbers in London formerly used by Euro Currency. It is allowed to trade pending a decision by the UK's Securities and Futures Authority on its application for authorisation.

Scandex is similarly allowed to trade under interim authorisation while Finanstilsynet, the Danish regulator, considers its application. If successful, it would receive a "passport" under the European Union's Investment Services Directive to operate anywhere in the EU.

The activity described by the former Scandex salesman is similar to that at Laurion, another company now operating out of Spain.

Laurion, registered in Hamburg, is linked to Nordex Denmark, a company raided by police in Copenhagen last month. Mr Gareth Martin Bell, manager of Nordex, is the subject of an injunction in the Isle of Man relating to Laurion.

Mr Farrell said yesterday: "This company has no connection with Nordex. Never has, never will".

Regulators in several countries have reported complaints by investors that some foreign exchange companies had "churned" their accounts – entering into frequent trades to maximise commissions. Mr Farrell said 99 per cent of accounts with Scandex were not discretionary, so investors retained control over their trading activity.

Staff in the second office had expressed concern because they had not received their first salaries last week as promised. Mr Farrell said they were paid yesterday.

The former salesman said he was recruited in July after answering an advertisement in the Manchester Evening News. At an interview in London, he was told he would be paid £2,000 ($3,120) a month, not subject to Danish tax as long as he remitted it to the UK and looked after his own tax liability.

On arriving in Denmark in mid-August, however, he was told that his DKr18,000 (about $3,100) salary was subject to withholding tax, initially at 38 per cent and then at 43 per cent.

Mr Farrell confirmed that employees were subject to Danish tax and that any suggestion to the contrary would have been a "miscommunication".

The former salesman said shared accommodation arranged by Scandex had cost him over £600 in the first month. While in Denmark, he had broken even, only because he had demanded and obtained a £30-a-day cash advance, which colleagues had not received. Mr Farrell said Scandex paid for the accommodation of some of its employees.

With no background in foreign exchange, the former salesman said his calls often paid off

CONTRACTS & TENDERS

NEWS: ASIA-PACIFIC

India faces delay over sell-off plans

By Mark Nicholson in New Delhi

The Indian government's plans to raise Rs50bn ($1.4bn) from public asset sales this fiscal year are running well behind schedule, with bankers and some officials suggesting that the first of three planned tranches might not now be put to the markets until early next year.

Such delay would threaten the government's ability to raise the Rs50bn total before next March, the end of the present fiscal year. The receipts shortfall would endanger its target of cutting the fiscal deficit this year to 5 per cent of GDP from 5.9 per cent last year.

In his July budget, the first for the United Front government, Mr P. Chidambaram, finance minister, said he planned three tranches of sales, in September, November and January/February. Officials say they expect the first two sales to be big, single issues from two large state corporations, with the third being contingent on recommendations from a newly constituted Disinvestment Commission.

However, the first planned sale, of equity in VSNL, the state-owned international telecoms operator, has yet to be approved by the UF cabinet. Government officials have indicated that the issue may be delayed, citing the present weakness of Indian equity markets and the proximity of a $10bn issue by Deutsche Telekom, due to hit international markets in the next few weeks.

However, bankers suggest the government may also be nervous ebout proceeding with such a high-profile telecoms sale amid the present controversy surrounding Mr Sukh Ram, former Congress party telecoms minister, arrested in Delhi on Monday in connection with corruption investigations.

Should a VSNL issue be postponed, bankers say the only other state corporation which could readily be prepared for a divestment withing the government's envisaged timetable would be Indian Oil Corporation, the state refining company.

However, bankers in Bombay said gaining approvals, selection of issue managers and co-ordinators and preparation of the issue for both domestic and international markets would take until the year's end at the earliest. Indian officials separately conceded this week that they did not expect any such issue until the "first quarter" of next year.

Banharn pressed harder to quit

But outcome of a vote against Thai PM remains in doubt, writes Ted Bardacke

Thailand's embattled prime minister, Mr Banharn Silpa-archa, who is under mounting pressure from opponents and allies to resign, faces two days of political attacks when parliament begins debating a no-confidence motion today.

No prime minister has ever lost a censure vote in Thai politics they are routins. Yet with allegations of corruption and political mismanagement against Mr Banharn's six-party coalition growing, the censure debate promises to be a politically charged affair. The outcome is far from clear.

A military takeover, the usual outlet for relieving political pressure, is not a realistic or immediate option: potential coup-makers are still smarting from the 1992 massacre of scores of demonstrators.

The prime minister's present woes stem largely from his own unpopularity among Bangkok's economic élite, who blame him for mismanaging a slowing economy after many years of double-digit growth.

The current account deficit is rising, the 14-month-old government says growth this year is likely to be less than 7 per cent (below its already downward-revised target of 7.8 per cent), the stock market is languishing, and observers doubt the durability of Thailand's export-driven growth.

"Banharn has to go. The pressure in the system is getting too great; there could be an explosion," says Mr Suthichai Yoon, a political analyst. "The question is how to get rid of him using democratic mechanisms."

Mr Banharn's coalition partners could, for instance, vote against him when the motion is put up for a vote on either Friday or Saturday. But if he believes the vote will go against him, he is likely to dissolve parliament and call a snap election. That outcome is still slim though by no means out of the reckoning.

An election would be an uninviting prospect for government MPs still trying to exploit their position in an environment where routinely, the use of office is sought for personal gain.

The government, for instance, has delayed the award of banking licences after it acknowledged that bribes may have been paid to politicians.

"No one except the [leading opposition party] Democrats wants an election," says Mr Amnuay Viravan, deputy prime minister. "Everyone else thinks they have e chance for power with this parliament in place."

Alternatively, Mr Banharn could resign before or after the censure vote, paving the way for the formation of a new coalition led by either Mr Amnuay, General Chavalit Yongchaiyudh, defence minister, or Mr Chatichai Choonhavan, the former prime minister ousted in a 1991 coup.

A former top adviser to Mr Banharn says a resignation in these circumstances is unlikely because it would require the prime minister to make a self-sacrificing decision that would involve a loss of face.

"He honestly thinks he has done nothing wrong, or at least nothing worse than anyone else," says a former aide, while Mr Banharn himself told the Bangkok Post yesterday that just because "I've said all along that I am not tied to the position . . . does not mean I will back down easily."

Mr Banharn believes he will win the censure vote and be in a position to form an "all-star team" of competent technocrats to take over management of the economy. A team of technocrats would, he believes, restore the political credibility that his government lacks. The idea of a technocratic government is gaining favour in some political circles and the prime minister says he has asked Mr Amnuay to assemble such a team.

But potential members of an all-star technocratic administration are unlikely to want to join a Banharn-led government. Mr Amnuay says gathering such a team would be difficult.

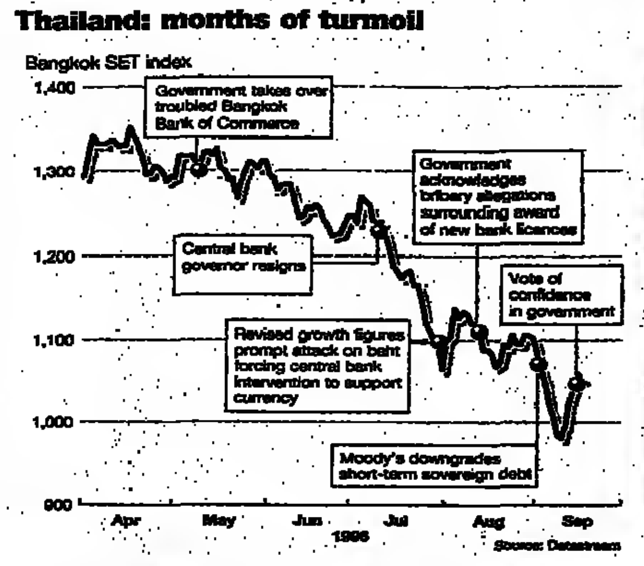
"I've been all over the country looking for these people [to join the government]," he says. "I knnw they are there hut I can't find them."

If Mr Banharn survives, activist groups say they will take to the streets tn demand the prime minister's resignation. Already yesterday, a small group of businessmen drove their Mercedes cars slowly to Government House and unfurled a banner calling on Mr Banharn to step down.

Such groups could be joined by rightwing elements intent on stirring np trouble and creating conditions for some form of outside intervention.

"If that happens, then all bets are off," says a western diplomat. "To find demonstrators in the streets changes the political dynamics from the palace down."

Thailand: months of turmoil



Source: Datastream


Banharn Silpa-archa: 'Prime minister'

Dhaka rings rural poor's number

Grameen Bank, which pioneered the business of lending small sums to the rural poor nf Bangladesh, has bcen awarded one of three new cellphone licencos in a government move to boost competition in the sector. And no one will be more pleased than the poor, mostly women, tn whnm Mr Mohemmnd Yunus, Grameen's founder, has given thousands of unsecured loans of as little as $100.

With a loan recovery rate of nearly 98 per cent, Mr Yunus's clients are both creditworthy and loyal ond he is confident they will take to mobile phones as they have to his "micro-lending".

"The villages will become like mobile telephone booths," he said, after his consortium, which includes partners from Norway, US and Japan, was ewarded a mobile cellular phone operators' licences last month.

Grameen's aim is to make mobile phones a tnol for rural develnpment in a country where more than 80 per cent of the country's 120m population live in villages.

Bangladesh has two landlines per 1,000 inhabitants – one of the lowest per capita levels in south Asia. This compares with 16 in Pakistan, 11 in India and 10 in Sri Lanka. In Thailand the ratio is about 50.

The cost nf Installing a digital land-line in Dhaka, the capital, is about $500 – prohibitive in a country with a per capita income of $220. Typically, the average wait for a phone line is 10 to 12 years, says the World Bank.

The government hopes the awards of cellphone licences will increase the number of mobile phones by nearly five-fold over the next year and a half. The decision to open the market will also put an end to the cellular-phone monopoly enjoyed by Pacific Bangladesh Telecom, a 100 per cent Bangladeshi-owned company. It was awarded the licence three years ago but has managed to attract only 4,000 subscribers, a performance that provoked the opening-up.

For the business community, the government decision, announced within 60 days of its taking office, is a decisive step. "This is a strong signal to business as well as to foreign investors, that the new government is committed to easing the way for renewed growth and private-sector investment," said Mr Salman Rahman, president of the Federation of Bangladesh Chambers of Commerce.

The Grameen Phone consortium includes Telenor, the Norwegian state-owned telecoms company, trading gronp Marubeni of Japan, and Gonofone Development Corporatinn, a New York-based company set up hy expatriate Bangladeshis. The consortium will invest an initial $25m to install 50-60 hase stations (towers to relay signals from one to another) covering an area of 55,000 sq km including Dhaka, and, in the south, Chittagong, Comila and Khulna, and a wide swathe of rural area. Grameen believes it will cover the whole country in six years.

Grameen's market research reveals that total demand for mobile phones could double to about 300,000 nver the next 10 years. It expects to attract about 20,000 subscribers in the first 18 months.

The other two licence winners are TM International (Bangladesh), a consortium of TM International Malaysia and Bangladesh'e A.K. Khan group; and Seba Telecom, which is owned hy ths Bangladeshi company Integrated Services and Malaysia's Technology Resources Industries.

TM International proposes to invest about $50m over the next 18 months to establish 34,000 lines, according to Zahiruddin Khan, chairman of the group and a former industry minister. Seba says it will invest $75m, establishing some 90 base stations and forecasts 10,000 subscribers by early 1998.

The cost of nwning a phone and making a call are now likely to be significantly reduced. Currently the cost of buying a mobile telephone and subscription is about Tk45,000 ($1,000) which is beyond the reach of most businessmen, lst alone the rural poor.

Kasra Naji

US offers to pay its arrears to ADB soft loan fund

By James Kynge in Kuala Lumpur

The US has offered to pay its arrears to the Asian Development Bank soft loan fund within four years, opening the way for a solution to a long-standing impasse which has threatened to undermine the fund's operations.

A bank official said yesterday that Washington offered to pay off its $234m arrears to the Asian Development Fund (ADF) soft loan window from 1997 during the fund's next four-year term, which starts in 1997. Several members of the multilateral bank indicated an acceptance of the US proposal at a meeting in Kuala Lumpur, the Malaysian capital yesterday, but some said they were against it, a source said.

The apparent settlement comes after a period of intense wrangling over US arrears for a replenishment due in 1992. This was accompanied by US pressure on reluctant "Tiger" economies to pay more into the facility, which cast doubts over whether the ADF would be replenished in time for soft loan operations to continue in 1997.

The ADF is a cornerstone of the bank's development operations, providing poorer Asian countries with loans of 40-year maturities with a 1 per cent repayment per year after a 10-year grace period.

Members of the Manila-based bank have been concerned that a US failure to clear its arrears before the start of the seventh ADF in 1997 might lead to disenchantment and reduced pledges from other, mainly Asian, donors.

It now remains for a meeting of ADF members scheduled to take place in Copenhagen, Denmark, in October to hammer out e final response to the US offer. If that meeting fails to do so, then another meeting may have to be arranged before the end of the year, said the official. "But we want to wrap it up by the end of the year," he added.

It seems likely that the bank will have to settle for a decline in donations for the seventh ADF period, partly because the US is offering only $340m – half the amount it promised the sixth ADF which has run since 1992. The source said that some members are keen on penalising Washington for the reduction in its donation, perhaps by limiting the participation by its companies in projects funded by ADF lending.

"But this kind of penalty is not a preferred option," said the official. "However, some people do want to see a declining role for the US in the bank to reflect its declining donations," he added.

ADB officials predicted that the ADF may manage to raise between $3bn to $3.6bn in fresh funds for the seventh ADF, down from the $4.2bn pledged for the current term. Japan, the largest donor, has offered to supply 35 per cent of total fresh funds for the ADF.

There were signs at the Kuala Lumpur meeting of progress in eliciting larger donations from the Asian "Tiger" economies of Singapore, Taiwan and South Korea.

ASIA-PACIFIC NEWS DIGEST

Japan's poison scare hit growth

The panic generated by Japan's food-poisoning epidemic was strong enough to kill off a short-lived recovery in consumer spending over the summer, according to official data released yesterday. Average household spending fell by 4.4 per cent in the year to July, after growing by 3.4 per cent in June, the first rise in three months. The setback comes from a decline in purchases of raw and convenience food, after the outbreak caused by the bacterium 0-157 E coli, in which 10 died.

In an illustration of just how serious was the impact, the July decline in spending exceeded the 4.2 per cent fall in consumption that took place in January 1995, the month of the Kobe earthquake, which temporarily paralysed Japan's heavy industrial heartland and killed more than 6,000 people.

However, industrial output rose by 4.9 per cent from June to July, significantly higher than the preliminary estimate of 4.1 per cent issued by the Ministry of International Trade and Industry late last month. Industrial deliveries only increased by 4.1 per cent in July – albeit np from a preliminary 3.3 per cent. As a result, stocks of unsold goods and materials fell at e very slow 1.2 per cent in the same month. *William Dawkins, Tokyo*

Nuclear shipment disclosed

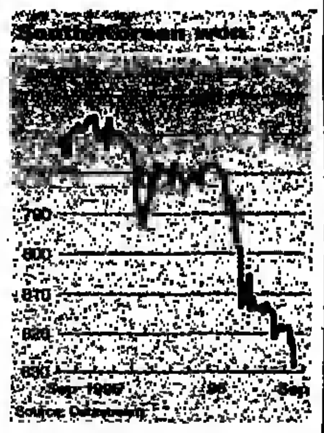
A shipment of 600 tons of uranium hexafluoride arrived in Japan's northern port of Mutsuogawara yesterday. The shipment was the first since the Japanese government decided to reveal more about its nuclear fuel shipments. Ths Science and Technology Agency last Friday released information of the uranium's arrival date and the name of the ship. It was the first time uranium, destined for a nuclear complex in Rokkasho in Aomori Prefecture, has heen transported directly to the port. In the past a state owned nuclear fuel company secretly transported uranium by land from Tokyo. *Emiko Terazono in Tokyo*

Vietnam tax bill for director

Ho Chi Minh City tax authorities have given Mr Nguyen Trung Truc, director of the Vietnamese subsidiary of Hong Kong's Peregrine Investments Holdings, a $100,000 tax bill, the Tuoi Tre (Youth) newspaper reported. The municipal tax office assessed the taxes based on a contract between Peregrine and Mr Truc and his wife, Ms Deidre Low, the report said. Mr Truc runs Peregrine Capital Vietnam. He has been under investigation for alleged tax evasion since May. In July, authorities announced they were pressing charges against him and his wife in connection with car imports. He has denied any wrongdoing. Until the investigation, Mr Truc, an overseas Vietnamese with an Australian passport, had been regarded as one of the most successful investors in Vietnam. *AP-DJ, Hanoi*

Sri Lanka export growth dips

Sri Lanka's export growth declined in the first half of the year and analysts say the trend will continue to hit the war-battered economy in the second half. Exports in the six months to June were up by 9.47 per cent compared to a growth rate of 12.16 per cent in the corresponding period last year. Imports dropped marginally by 1.6 per cent this year. The Chamber of Commerce, which represents the private sector, said the full impact of daily power cuts since March – which had reduced production by 30-50 per cent – and labour unrest will be felt only in the second half of the year. High interest rates, rising wages, labour unrest and the withdrawal of state subsidies had added to the problems for exporters. *Amal Jayasinghe, Colombo*



Sharp fall in Korean currency

By John Burton in Seoul

South Korea's economic problems have triggered a eharp depreciation of the Korean won against the US dollar, which may benefit exports but could also add to inflationary pressure.

The Korean currency dropped to a record low of 830 to the dollar on Monday befors the central hank intervened to stabilise the exchange rate et 828.80, where it stood yesterday.

The central bank attributed the sharp fall in the won rate to growing demand for US dollars as Korea's current account deficit widens to a record level this year of at least $15bn.

Demand for the dollar is increasing to meet scheduled import settlements and to cover short positions.

The won has fallen by 6.4 per cent against the dollar since the beginning of 1996 and has reached its lowest point since a restricted floating exchange rate was introduced in March 1990.

Economists said the government was letting the won drift downward to improve price competitiveness of Korean exports, which have lost market share to Japanese products as the yen weakened against the US dollar over the past year.

But there are worries that a weak exchange rate could increase inflation, which is threatening to breach the government target of 4.5 per cent this year, by making dollar-denominated raw material imports, such as oil, mnre expensive. A weaker won/dollar exchange rate also threatens to depress net earnings of Korean companies for 1996.

■ Victorious KDP leader looks to reduce reliance on Baghdad ■ US fears for its Kurdish agents

Saddam's Kurdish ally to meet US official

By Roula Khalaf in London

Mr Massoud Barzani, the Kurdish leader allied with Iraqi President Saddam Hussein, is to meet a senior US official, possibly today.

Mr Barzani, who won virtual control of northern Iraq last week with backing from Iraqi forces, will be in Turkey this week for talks with Turkish officials and will also meet Mr Robert Pelletreau, the US assistant secretary of state for Near Eastern affairs.

The US has confirmed that it is seeking a meeting with Mr Barzani, and that the meeting may be held as early as today. US officials said they were looking to explore Mr Barzani's intentions and to ensure the security of Kurds who work for US agencies in northern Iraq.

Hundreds of Kurds employed by US military and aid agencies – some of them involved in intelligence work for the US – have been evacuated from northern Iraq. According to western diplomats, Iraqi forces earlier this month executed 100 members of the opposition Iraqi National Congress in the Kurdish city of Arbil.

After seeking Mr Saddam's direct military support in taking over Arbil earlier this month and indirect help in sweeping through the rest of Kurdistan, Mr Barzani has attempted to distance himself from the Iraqi regime.

Mr Saddam has tried to consolidate the new alliance with Mr Barzani's Kurdistan Democratic Party by lifting a five-month blockade, declaring an amnesty in northern Iraq and offering to maintain autonomy for the Kurdish north. But Mr Barzani has kept an eye on his own Kurdish constituency and has taken into consideration criticism of his new friendship with Saddam from among his supporters. He issued his own amnesty to the defeated Patriotic Union of Kurdistan and said he would allow the PUK to operate freely as a political party. "We have said that Iraq's recent assistance was a one-off deal and there is no agreement with the Iraqi government," said a KDP official yesterday. "We have some hard questions to ask the US: we would like to know what the US policy is and the position on foreign interference in the region, especially Iranian."

The KDP maintains that the PUK is backed by Iran. It is also the excuse used by Mr Saddam in intervening to back the KDP in the inter-Kurdish fighting.

Analysts said that Mr Barzani was exploring ways to reduce his reliance on Baghdad and was looking for US acknowledgement of his new predominance in northern Iraq. But a US official made clear that a meeting between Mr Barzani and US officials should not be seen as US recognition of KDP control over the Kurdish north.

Mr Ibrahim Karawan, senior fellow for Middle East security at London's International Institute for Strategic Studies, said Mr Barzani was hedging his bets. A meeting with the US, he said, could be a warning to Saddam not to overplay his hand.

● US President Bill Clinton yesterday denied reports that he was reconsidering sending US troops to Kuwait as part of the military build-up in the Gulf to maintain pressure on Iraq. Mr Clinton said he signed deployment orders on Monday night but he did not specify when US forces would arrive.

Package of measures unveiled to open capital markets, boost savings and reform pension funds

Israel acts to restore investor confidence

By Judy Dempsey in Jerusalem

Israel's finance ministry yesterday unvailed a swaeping package of measures aimed at opening up capital markets, boosting domestic savings and reforming state and private pension funds.

If agreed by the government, which has put economic liberalisation high on its domestic agenda, and pushed through the Knesset, the measures could be the first step towards restoring public confidanca in the markets.

In Jnly, small investors redeemed over US$1bn from provident, or savings funds when bond prices fell and real interest rates remained high.

They could also mark the first move towards greater scrutiny and accountability in the management of pension and other funds.

"The reforms could have a crucial impact on the capital markets and long-term savings," said Mr Gad Haker, head of the international department at Batucha Securities and Investments.

"It is time there was more transparency in the way the markets are operated and how small investors are advised."

As a first step, Mr David Brodet, director general of the finance ministry and chairman of the special committee for capital markets, racommended significant tax cuts on interests on bonds, dividends and savings.

> 'It is time there was more transparency in the way the markets are operated'

These would include redncing the tax rate on intarest from tradeable bonds from 35 per cent to 10 per cent, and on dividends from 25 per cent to 15 per cent. The tax on foreign securities would be cut gradually from 35 per cent to 25 per cent, and later, to 20 per cent.

A second plank of the reforms would entail the introdnction of tax exemptions for interest on 10-year or longer-term savings while short-term and medium-term savings would carry an interest rate of 5-10 per cent.

The idea is to pre-empt a repeat of the massive redemption of the provident funds over the past two months.

"The tax incentives will be focused on the retirement savings. There will be no more tax incentives for provident funds that are not for retirement," said Mr Brodet.

A third phase of the reform, and probably the most controvarsial politically, would entail reducing governmant subsidies to pension funds. Such subsidies amount to a fixed return – often 2¼ times the pension contribution. These have provided fund managers with little incentive to enter the markets.

Premier Benjamin Netanyahu (right) discusses the Syrian troop build-up with his military adviser Gen Zeev Livnay Reuter

Netanyahu firm on Syria troops

By Judy Dempsey in Jerusalem

Israel will not be put under pressure by Syria's decision to redeploy 12,000 troops in Lebanon near the Golan Heights, Mr Benjamin Netanyahn, Israel's prime minister, said yesterday.

"What Syria is trying to do is to put psychological pressure on Israel and on its new government," Mr Netanyahn declared after addressing the foreign affairs and defence committee of the Knesset (parliament).

Israel was "taking seriously all the signs on the ground. I am convinced we are taking all the necessary measures to defend the security of the country and its citizens," he added.

His remarks coincided with moves by Washington to restart the peace negotiations which had been broken off by the former Labour government following a wave of bombings in Israel earlier this year.

Mr David Ross, a US envoy, arrived in Cairo yesterday, where he is expected to hold talks today with President Hosni Mnbarak of Egypt. He will later travel to Gaza and then to Israel.

Mr Netanyahn, whose Likud govarnment was elected last May, met Mr Yassir Arafat, president of the Palestinian authority, earlier this month, the first meeting since the elections.

However, Mr Netanyahu has been reluctant to give any timetable for resumption of the peace talks, or more specifically, has not committed his government to withdrawing Israel troops from Hebron as agreed in the interim peace accord signed by the previous government and the Palestinians.

This issue, as well as the future of the peace negotiations, is likely to be high on the agenda when Mr Netanyahu makes his first official trip to Europe next week.

He is due to hold separate talks with Chancellor Helmnt Kohl of Germany; Mr John Major, the UK prime minister, and France's President Jacques Chirac.

UN fears famine in Kurd enclave

By John Barham in Sulaimaniya, northern Iraq

The United Nations World Food Programme has put out an "urgent appeal" for international food donations to avert a potential humanitarian disaster in Kurdish northern Iraq this winter.

UN officials yesterday said this year's harvests were poor, causing shortages and raising prices. The UN says it oeeds donations to provide for about 600,000 people, about one-sixth of the Kurdish enclave's population.

UN economists say wheat output in the enclave, traditionally Iraq's breadbasket, fell 40 per cent this year to 240,000 tonnes, leaving a shortfall of 160,000 tonnes.

Ironically, farmers cut production because they expected food prices to fall once Iraq's President Saddam Hussein reached agreement with the UN allowing Baghdad to import food and humanitarian supplies by exporting $2bn worth of oil every six months.

Bad weather also damaged crops and fighting between Kurdish groups interfered with harvests. The UN shelved its oil-for-food agreement with Baghdad, after Mr Saddam sent troops to help the Kurdistan Democratic Party (KDP) defeat the rival Patriotic Union and take control of the region.

The UN warned that food shortages could further aggravate already serious malnutrition.

The exodus of international aid organisations is further undermining relief efforts. Many organisations evacuated their staff, fearing for their safety after Iraqi government troops entered the region. Aid agencies are virtually the only providers of basic services.

Although Iraqi troops do seem to have left, the KDP leadership is struggling to convince agencies to return. But their local staff remain terrified of reprisals by government agents.

NEWS: THE AMERICAS

Florida 'triumph' for tobacco groups

By Richard Tomkins in New York

The US tobacco industry was yesterday claiming e court triumph after a Florida circuit judge dealt a blow to the state's attempts to sue the industry for the recovery of healthcare costs.

The judge dismissed 15 of Florida's 18 claims against US cigarette makers and ruled that no claims could be brought for costs incurred before July 1994, when Florida passed a statute making it easier to sue the industry.

Significantly, the judge also ordered the state to produce the names and addresses of every individual involved in the remaining claims within 30 days, opening the way for the industry to challenge the validity of each smoker's case.

RJ Reynolds, the tobacco subsidiary of RJR Nabisco, said: "This is a clear demonstration that each party to a lawsuit, no matter how politically unpopular their case may be, is entitled to fair and equitable treatment under the law."

Tobacco stocks rose sharply in response to the ruling, which came late on Monday evening. At lunchtime yesterday Philip Morris's shares were up $1¾ at $93¾ and RJR Nabisco's were up $¼ at $27.

Earlier, shares in Britain's BAT Industries closed 23½p up at 452½p in London on the news that the judge had dismissed the UK holding company from the claims. But BAT's US arm, Brown & Williamson Tobacco, will remain a defendant in the case.

Florida is one of 13 US states suing the tobacco industry for the cost of treating smoking-related illnesses under the Medicaid public assistance programme.

The state is seen as most likely to succeed in its suit as it has passed legislation that strips away many of the industry's traditional defences; for example, the argument that smokers knew the risks they were taking but chose to smoke anyway.

In June the Florida supreme court issued a ruling on the lawsuit but left it to the lower court to determine procedure. Yesterday's interpretation by the circuit court turned out to be more favourable to the tobacco industry than expected.

The case will now proceed towards a trial due to begin on August 4 next year. In the meantime the tobacco companies seem likely to examine individual smokers' cases and seek to show that illnesses were wrongly attributed to smoking or that money was wasted on inappropriate treatments.

TV debates to exclude Perot

By Nancy Dunne in Washington

The bipartisan Commission on Presidential Debates yesterday recommended that Mr Ross Perot, the Texas billionaire presidential candidate, not be included in the television debates between President Bill Clinton and former Senator Bob Dole, his Republican challenger.

The recommendation is considered a victory for Mr Dole who, trailing the president by 15-20 points in most polls, sorely needs good news. The debates are the last key events before the November elections. Republicans feared Mr Perot's participation would give him e larger share of the anti-Clinton vote.

A spokesman for Mr Perot's Reform party called his exclusion a "travesty" and warned that Mr Perot might challenge the commission's decision in court.

The commission's standards for third party participation require that the candidate has a "reasoneble" chance of winning. Support for Mr Perot, who won 19 per cent of the vote in 1992, has been running at 8 per cent or less in most polls.

The campaigns can decide to ignore the commission's recommendations. In talks between Republican and Democratic representatives, the Clinton camp has been urging Mr Perot's participation in at least the first debate. The Dole camp has refused.

● US industrial output increased 0.5 per cent in August after a slim 0.1 per cent gain in July, according to figures released yesterday by the Federal Reserve, Reuter reports from Washington. Businesses were reported to be operating at 83.5 per cent of their capacity last month, up from 83.3 per cent in July. The figures were in line with expectations.

Ford union deal challenges GM

UAW accord breaks US motor industry mould, writes Richard Waters

The stage has been set for e renewed showdown in the US between General Motors and the United Auto Workers union after a three-year labour agreement reached betweeo Ford and the union late on Monday.

To judge by the terms of that agreement, GM will be under pressure to make substantial concessions to its 220,000 UAW workers or face another crippling strike like the 17-day stoppage at two of its parts plants in Dayton, Ohio earlier this year. Once again, it seems, e dispute involving the country's biggest manufacturer could bring the politically sensitive issue of job security under the spotlight.

Ford's deal with the union, concluded nearly 48 hours after the previous contract had expired, was meant to set a pattern for the other US car and light truck makers. That, et least, has been the tradition in the US motor industry. But the divergent fortunes of the Big Three – GM, Ford and Chrysler – will make that difficult this year.

Ford's agreement with the UAW is subject to a vote of members and details have yet to be released officially. At its heart, though, are two clauses which break the mould of previous labour contracts in the US motor industry.

One is a job guarantee under which the company has said it will keep 95 per cent of its existing 105,000 UAW jobs open. New workers will be hired when existing ones retire.

"The principle involved is quite different from anything we have seen in a major labour agreement in the US," says Mr Dale Brickner, a professor et Michigan State University. Other unions have tried to win such guarantees, but failed.

The practical impect of Ford's guarantee is difficult to discern. If, to calculate the 95 per cent, it excludes new workers who are in the "grow-in" period before assuming full UAW rates, then the company would in effect be able to cut its workforce by up to 10,000 people, says Mr Brickner. Also, the company is believed to have secured an over-ride clause allowing it to break the guarantee in exceptional economic or financial circumstances.

The second ground-breaking clause will allow the company to pay a lower rate to workers in parts plants than to those on vehicle assembly lines, creating e new two-tier wage structure. The immediate impact is mitigated by the fact that it will apply only to new parts workers, not existing ones. And Ford is believed to have agreed to a formula that would make wages of the new workers comparable with the highest paying jobs in independent parts suppliers.

Alex Trotman, Ford chairman, at e news conference called to announce the United Auto Workers' deal *Associated Press*

In an industry where "outsourcing" of parts jobs has become a sensitive issue, this new two-tier wage structure represents something of a breakthrough. It seems to allow the company to reduce its costs in future while enabling the union to prevent the steady seep of jobs to non-unionised suppliers. It was this issue that prompted the strike earlier this year which brought the company's assembly lines to a halt.

Not surprisingly, the parts companies that have benefited from outsourcing are cautious about the implications of the agreement.

Speaking on Mondsy, before the Ford deal was reached but when talk of job guarantees was already in the air, Mr Woody Morcott, chairman of parts company Dana, said: "Most suppliers would see more downside in this, rather than upside." He added, though: "I'm not sure this will be a watershed", since the car makers' previous agreements with the union already required them to maintain the pay of laid-off workers, even if their jobs were not kept open.

While the view on Wall Street yesterday was that Ford could live with its new agreement withont facing substantially higher costs, things look different for GM. The company, with 240,000 UAW workers, is still only half way through the overhaul under way since the early part of the decade: its labour costs remain higher than its main competitors and it makes far more of its parts in-house than Ford or Chrysler.

The company still needs to rednce its workforce by as many as 70,000 to make itself fully competitive, says Mr Dave Cole at the University of Michigan. As it happens, the opportunity to do so is about to arrive: the company is in the process of introducing a new range of models which would allow it to build vehicles with less labour input, says Mr David Healey, an analyst at Burnham Securities.

The two-tier wage structure for parts plants would do GM little immediate good, given that it is in the process of scaling back – rather than expanding – its parts-making business. And the guarantee clause would put a block on its efforts to "downsize".

It was not surprising, therefore, that industry analysts chose to see Ford's agreement with the UAW in the light of its competition with GM. As Mr Healey summed it up: "They have screwed GM more than they have screwed the union."

Chrysler faces Canadian ultimatum

By Bernard Simon in Toronto

Chrysler's Canadien subsidiary was locked in labour contract talks yesterday with the Canadian Auto Workers union, which had threatened to strike if a deal was not reached before expiry of an existing contract et midnight last night.

Yesterday's talks centred on wages and benefits. The CAW earlier in the day claimed a victory on the contentious issue of contracting work to outside, usually non-unionised, parts suppliers.

According to the union, Chrysler agreed that any jobs lost to "outsourcing" at its Canadian plants would be replaced by new jobs, provided the company was making a profit.

Chrysler has a unionised workforce of about 13,000 in Canada. A minivan plant in Windsor, Ontario, and a car assembly line in Bramalea, north-west of Toronto, contribute about a third of the company's North American output.

The CAW hopes any deal on outsourcing with Chrysler will set a pettern for forthcoming contract talks with General Motors and Ford, which are expected to make contracting-out a cornerstone of their demands from the union.

Calpers neutral on fraud plan

By Christopher Parkes in Los Angeles

Celpers, the powerful Californian state employees' pension fund, has elected to stay out of the debate over Proposition 211, a popular initiative designed to make it easier for investors to sue for securities fraud.

The fund's investment committee voted narrowly on Monday to take a neutral stance, after deciding there was "no overwhelming evidence" to sway its 13 members to oppose the law, according to a fund official.

The 7-to-6 decision reflected divisions over the issue which has pitted businesses, senior politicians, stock exchanges and accountancy firms against the lawyers and consumer groups which back 211.

The committee had been subjected to "a considerablo amount of lobbying," the official said, and noted that a preliminary vote on the issue had resulted in a 7-to-6 majority in favour of opposing the initiative. The position was reversed following discussion and a formal vote.

Opponents say the proposal, which will pass into state law if approved by voters in November, will make California a "magnet" for frivolous lawsuits against companies throughout the US and beyond.

Calpers' decision was in keeping with its epolitical status as e state agency, an official said. According to e discussion document distributed to committee members, 211 offered no significant benefits to Calpers and presented risks to the fund's investment strategy.

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NEWS: WORLD TRADE

China, Japan strengthen trade ties

By William Dawkins in Tokyo and Laura Tyson in Taipei

China and Japan yesterday demonstrated their refusal to allow a territorial spat over disputed islands in the East China Sea to disturb the task of building trade and business relations.

A Japanese delegation of more than 100 senior executives arrived in Beijing yesterday to meet premier Li Peng and other senior officials to discuss trade and foreign investment policies.

That the annual business mission from Tokyo to Beijing is going ahead as planned is a reflection of the growing importance of economic relations. Japan has traditionally been China's largest trade partner and China became Japan's second largest trading partner for the first time last year.

Then, exports from Japan to China rose by 17 per cent to $21.9bn, while Chinese exports to Japan rose by 30 per cent to $35.9bn, according to the Japanese external trade organisation. China is the largest of the few countries with which Japan runs a trade deficit, nearly $14bn last year, a consequence of its reliance on cheap Chinese domestic electrical goods, textiles, food and raw materials.

The top issue on the mission's agenda is the Chinese government's plans for a high speed train, to link Beijing and Shanghai at an expected cost of $3bn. Japan is keen that its Shinkansen bullet train system should be chosen rather than French or German alternatives. Japanese involvement in the modernisation of Chinese agriculture is also expected to be discussed.

The territorial dispute is over the Diaoyu islands. Beijing recently issued a stiff warning after an ultra-nationalist youth group restored a lighthouse on one of the islands.

Taiwan is also involved. It challenges Japan's claim to sovereignty over the islands and has also protested about the restoration of the lighthouse. The provincial assembly based in Taiwan's central city of Taichung yesterday voted to impose a ban on Japanese goods and services because of the dispute.

The boycott, however, only covers contracts issued by the provincial government, which administers three quarters of the island's territory excluding Taipei and Kaohsiung cities. While island-wide procurement of goods and services from Japan is significant, the largest projects are run by the central government so the impact of the sanctions will probably be limited. Major infrastructure projects such as a high-speed railway between Taipei and Kaohsiung, road construction and airport expansion projects will not be affected.

The issue of trade with Japan is politically sensitive in Taiwan because of Japan's persistently high trade surplus. Bilateral trade amounted to $43.5bn in 1995, with a $17.1bn balance in Japan's favour.

Mr Lawrence Summers, the US deputy treasury secretary, yesterday praised Taiwan's commitment to trade and financial market liberalisation but said there was "some way to go" before conditions for joining the World Trade Organisation were met, writes Laura Tyson in Taipei.

Mr Summers said more work was needed in several areas including reform of the state alcohol and tobacco monopoly, greater access for foreign vehicles, national treatment for services including legal and financial services and improved access for agricultural products.

Revival of Japanese demand lifts sales of industrial robots

By Frances Williams in Geneva

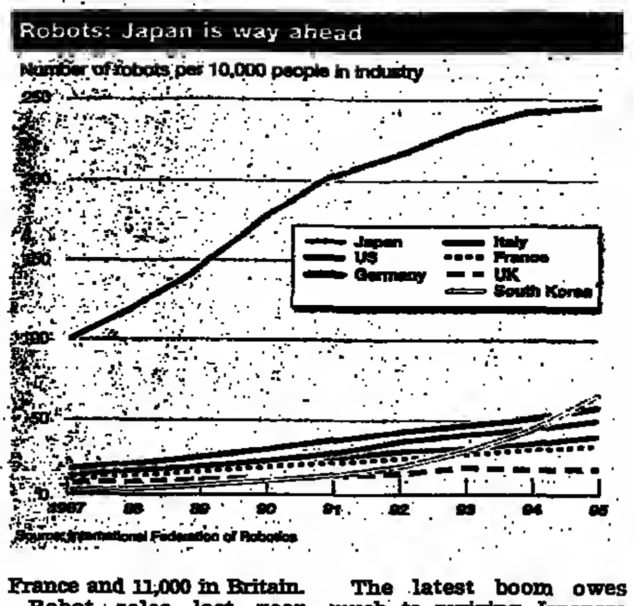
Worldwide sales of industrial robots surged by more than 25 per cent last year and are predicted to grow by a further 20 per cent in 1996, according to the latest annual survey compiled by the United Nations Economic Commission for Europe and the Stockholm-based International Federation of Robotics.

Sales are expected to rise by 15 per cent a year for the rest of the decade, bringing the world stock of industrial robots to more than 1m by the end of 1999. This represents an increase of more than half from December last year when the stock stood at 650,000 units.

Japan, which now accounts for almost 60 per cent of the world's robot stock, will still have roughly half by the turn of the century.

Of the remainder, just under 100,000 will be in the US, 76,000 in Germany, 38,000 in Italy, 17,000 in France and 11,000 in Britain.

Robots: Japan is way ahead



Source: International Federation of Robotics

Robot sales last year jumped by 26 per cent to 75,500 units worth some $5.7bn as the market continued its recovery from the 1991-93 recession.

Sales this year are expected to top 91,000, breaking the previous record of 81,000 in 1990.

The latest boom owes much to reviving Japanese demand after a lean patch. About 36,500 new robote were installed in Japan last year, a 23 per cent increase over 1994. Some two-thirds of these represented replacement investment.

Elsewhere, demand rose by a third in the US, more than 40 per cent in Germany and 30 per cent in Italy. Sales to South Korea, now the world's fourth largest robot market, also jumped by almost 40 per cent.

In most robot-using countries the main use for robots is welding, especially in the car industry, though in Japan and Singapore the predominant use is for assembly work in the electronics industry.

Japan nevertheleas remains the biggest user of robots for making cars. For every 10,000 people employed in the motor vehicle industry last year, there were more than 800 robots in Japan, about 400 in Italy, 300 in the US, 250 in Sweden, 230 in Germany and just under 200 in France and Britain.

Japan also tops the league table for the whole of manufacturing industry, with about 250 robots per 10,000 workers.

World industrial robots – Statistics 1983-94 and forecasts to 1998 (Sales no. GV.E.96.0.26). UN sales section, Palais des Nations, CH-1211 Geneva 10, $120.

EU employers oppose calls to involve WTO in labour issues

By Guy de Jonquières

Unice, the European employers' federation, has voiced opposition to US and European Commiesion demands that the World Trade Organisation should discuss the links between international trade and labour standards.

Unice has told EU governments that most of its 32 member organisations consider that the WTO is not the right forum for such discussions, and that international efforts to curb abuse of labour rights should be pursued in the International Labour Organisation.

Unice says most of its members "are convinced that an open multilateral trada system is the best way to maximise the growth necessary to improve living and working conditions, and that trade sanctions would not contribute in any way to the goal in view."

Unice's views are set out in a position paper circulated ahead of an informal meeting of EU trade ministers in Dublin tomorrow which is due to discuss tha agenda for next December's WTO ministerial conference in December.

The Dublin meeting, which will also be attended by Mr Renato Ruggiero, WTO director-general, is not expected to reach firm decisions. But the EU ministers' views are likely to influence tha position taken by Sir Leon Brittan, Europe's trade commissioner in talks with trade ministers of the other "Quad" powers – the US, Japan and Canada – in Seattle later this month.

Unice says that, as well as reviewing progress in implementing the Uruguay Round trade agreement, WTO members should agree in Singapore to launch preparatory work for future multilateral trade negotiations.

Thesa should aim to reduce further tariff and non-tariff barriers and to establish "clear and binding rules" governing trade and environmental policy.

Unice calls for exploratory talks in the WTO on liberalising foreign direct investment and harmonising national customs procedures. But it says it is too early to hold substantive discussions on trade and competition policy.

Sir Leon has said the WTO needs to respond to widespread public concern by addressing trade and labour etandards. But EU governments are split on the question. France strongly supports Sir Leon's stance, while Britain firmly opposes it.

Most developing countries are determined to block any WTO talks on the issue, arguing that it could provide industrialised economies with a pretext for protectionism.

Unice's priorities for the WTO Ministerial Conference in Singapore. Unice, rue Joseph 11 40/Bte 4, B-1000 Brussels. Tel: 322-237 6511. Fax: 231 1445.

WORLD TRADE NEWS DIGEST

Cycle maker's new horizons

Hero Cycles, India'a biggest bicycle maker and one of the world's largest, is launching an assault on world markets with plans to build assembly plants in Europe, Africa and South Asia – aiming to capitalise on competitively priced Indian-made components.

Hero, which has 43 per cent of India's 10m a year bicycle market, plans a $5m plant in Kenya to make 300,000 cycles a year. It hopes to follow with a plant in Europe, most likely the UK, within six months. The group is also looking to enter South Asian markets with a third assembly plant.

Mr Rohit Chanana, group treasurer, said the aim of Hero's first foreign foray was to keep the growth of component exports at 20-25 per cent a year. Component exports to Africa, Europe and the US last year comprised 10 per cent of the cycle maker's Rs5.3bn ($148m) turnover, on which it reported profits of Rs160m. Mr Chanana said the proposed UK plant would entail investment of around $5m with envisaged output of 300,000-500,000 cycles. The plant would buy up to half its components from India, which would be priced competitively with Chinese-made cycle parts. *Mark Nicholson, New Delhi*

US officials acclaim car pact

US trade officials yesterday claimed success for the 1995 US-Japan agreement to open Japan'e car and car parts markets to foreign producers, saying that in the first six months of this year North American exports to Japan had risen 40 per cent against the previous 12 months. The EU, which opposed the US-Japan pact, also saw its car exports rise but at a elower rate – 11 per cent during the first six months of this year.

US officials expressed concern that only 107 new dealerships for foreign cars had opened this year in Japan out of the 200 projected. However, a Toyota spokesman pointed out that 1,000 Toyota outlets were selling General Motors Cavalier model; almost 2,000 Mazda dealerships were selling cars produced by Ford and Mazda; and 800 franchise deals had been concluded between the Big Three US car makers and Japanese dealers.

The European Union, Canada and Australia will today join talks in San Francisco to evaluate results of the pact. *Nancy Dunne, Washington*

HK utility in China venture

China Light and Power, Hong Kong's dominant electricity supplier, is poised to take a 35 per cent stake in a power plant to be built in Shenzhen, the special economic zone on the southern coast of China.

The deal is part of the utility's programme of expansion outside Hong Kong. Earlier this year the company, as part of a consortium which includes Electricité de France, was given approval by Beijing to build a 3,200MW power plant in Shandong province. It also holds a 25 per cent stake in the Daya Bay nuclear plant in southern China.

Other partners in the Shenzhen plant include Kanematsu, the Japanese conglomerate that already owns stakes in infrastructure projects in the region. The project, for three 350MW gas-fired generators, is worth an estimated Yn7bn-Yn8bn ($842m-$960m). Li Decheng, executive vice mayor of Shenzhen, said China Light and Power was brought in as it had more gas – from the South China Sea – than it could use and by joining the project all parties would benefit. *Louise Lucas, Hong Kong*

ALL THAT GLITTERS: The Fall of Barings

How Nick Leeson bought friends and favour

The lingering mystery of the Barings collapse is what happened to the millions of pounds that slipped through the hands of Nick Leeson, its rogue trader on Simex, the Singapore futures exchange. In the first of four exclusive extracts from their new book, All That Glitters, FT reporters John Gapper and Nicholas Denton explain how Leeson gave the money away

Leeson at Simex:
He used cross-trades – signalled here – to hide losses

Nick Leeson's manner was a pleasant change to the Barings traders in Tokyo with whom he dealt. When he started work in July 1992 there was at last someone at the Barings Futures desk at Simex who spoke good English and could talk callers amiably through the state of the derivatives market.

But Leeson's air of calm was deceptive. Moving to the trading floor from the back office was a much bigger change than he had imagined. In his previous job as a settlements clerk, he had dealt with problems that could be analysed calmly. On Simex, things changed all the time. The screens over his head flickered with new prices, the phones rang constantly, and mistakes were punished instantly by losses.

Pressures like this were common at Baring Securities – the stockbroking arm of Barings. They could lead to mistakes as traders bought or sold shares or bonds. It was easy to get confused and end up with more than had been ordered by customers.

Baring Securities usually dealt with left-over contracts by putting them in what was called a suspense account, where they could be held until it was decided what to do with them. Salesmen might be able to place them somehow. Otherwise, the firm would have to sell them again, bearing a loss from any price movement in the meanwhile.

Leeson's main job was to fill orders for customers such as banks and hedge funds. The orders largely came through Barings' futures and options sales desk in Tokyo, run by Mike Killian. Killian, a 39-year-old American, was wiry, with a weathered face and walrus moustache. He ran the derivatives sales business largely in Japan in isolation from the other Barings operations.

If Killian found himself with spare contracts on his books, he would sometimes place them in a suspense account in the hope that they would rise in value. "Come on up baby, come on up," Killian and fellow futures and options salesmen would mutter, as they watched prices change on their trading screens.

Suspense accounts were also used to absorb losses on trades. Simex was a small and not very liquid exchange. An investor placing an order through Barings could easily move the price. Leeson might quote a customer one price, but in fact have to pay more if futures prices moved in the pit as his junior trader executed the order for him.

In order to give the customer futures at the price he had promised, Leeson might have to take a small loss into a suspense account. It could be done through what was called a cross-trade. At the pit, he would signal that he was crossing futures from one Barings account to another by holding his hands crossed in front of him as if wearing a pair of handcuffs.

Leeson could buy contracts at one price, but then cross them into the customer's account at a lower one. It could not be done too drastically. Simex rules forbade cross-trades at prices that were much above or below the current market level. But there was some leeway for changing prices slightly in order to please Barings' customer.

Although the strains were obvious on the Simex floor, their effect only surfaced when trading finished, and the second half of Leeson's working day started. He would take the lift down from the fourth floor of the Overseas Union Bank building where Simex was located and head across the road to the Barings office in Ocean Towers.

It was a relief to get off the floor. It was hot, and although Baring Futures had a prime booth next to the air conditioning, the blue and yellow trading jackets were stifling. Most firms had jackets with aerated vents, but those of Baring Futures were made of solid material.

Leeson had to deal with 37 accounts, including a suspense account opened on his first day. Simex accounts had five-digit numbers, and the suspense account was numbered 99905. When the Baring Futures' positions had been entered on its own internal computer system, they were transmitted to Simex.

But the Simex system crashed constantly, leaving delays of three or four hours in which Leeson would not know if trades agreed. If there was any discrepancy, Baring Futures had to make up the difference. If Simex records showed that Baring Futures was short of 10 futures, Leeson would have to buy 10 the next day, and place any compensating loss in 99905.

Each day, the Barings Futures computer sent four pieces of information on each account to London. But on July 3, Gordon Bowser, the head of futures and options settlement in London rang to say he did not want to be sent all the details of 99905, because the errors were straining the London office's settlements software, with which Barings had been having problems.

Leeson said he would set up another account to hold all minor errors, and send only the bill for margin payments to London. He asked Riselle Sng, one of two settlements clerks in Singapore, her lucky number. She said that eight was lucky in Chinese. The word "bat" meant both "eight" and "prosperity". Leeson set up a new error account, which he called Account 88888.

The five eights account gave Leeson the buffer he needed. More than 200 contracts passed through it each day in the last week of July. The bill came on the final day, when Leeson had to produce monthly accounts. By then, the five eights account contained a loss of Y11m (£49,000). Leeson either had to write this amount off openly, or try to hide the loss somewhere.

This was a large amount to attribute to errors. There was a danger that if he declared it, London would think he was not running a very tight ship. Because Leeson was in charge of the back office, he did not have to do so. He could adjust the accounts to hide it. It was simple to shuffle Y11m from the margin held for Baring Futures' customers at Citibank into a sub-account for five eights, and move it back two days later.

Leeson needed some calm to get on top of things, and correct the loss that he had concealed in five eights. He was not to get it. The main contract in which he dealt was based on the Japanese stock market's Nikkei 225 share index. Because the Japanese government mistrusted futures trading and had imposed restrictions on domestic futures exchanges, Simex had obtained much of the trading on this index. But the Nikkei 225 had been falling for 18 months by July 1992, dropping more than 60 per cent.

On August 18, it scraped the bottom at 14,309. That day, the Japanese government disclosed measures to prop up its ailing banks, and said it would unveil an economic stimulus package by the end of August. The index surged, pushing up to 15,268 by Thursday 20. Orders flooded into Simex from around the world.

The rush of orders created turmoil on Simex, and led to an incident that Leeson was later to classify as the start of his hidden trading in five eights. On Friday August 21, the Nikkei rose by nearly 1,000 points on expectations of the forthcoming economic recovery package.

Leeson had just taken on a young clerk called Mitsuko from a firm of local accountants. That morning, she took an order for 20 futures for Fuji Bank. She mistook it as an order to sell futures on its behalf instead. The order was passed to the Nikkei pit along with others, and was executed at the market price.

By 2.15pm, when the day's trading on Simex ended, the Nikkei was 200 points up from the level at which Barings had sold 20 futures. Leeson discovered this at about 8pm, as he sorted through the day's trading in Ocean Towers. Because Barings Futures had sold instead of bought, it was out by 40 contracts. Since the market price had risen, it would cost Y4m (£18,000) to rectify.

So far at Barings, Leeson had a pristine record. He was fearful to spoil it now by disclosing the mistake. He worked himself up into a rage as he walked over to the Hard Rock Café, a favoured bar among expatriates, where he had agreed earlier to meet some traders for a drink.

As he walked in, Leeson saw Mitsuko, who already knew of the error. She was in tears at her mistake, and Leeson reassured her she would not be held to blame. Swigging at a beer in the hot and crowded club, he resigned himself to putting yet another loss into five eights. The fact that it was not his fault made him feel like a martyr.

Simex was now approaching the expiry of the September Nikkei futures contract on the 10th. Time was running out for investors who were holding futures on the wrong side of the Nikkei stock market index. The futures' index was usually slightly above it, reflecting the extra costs of holding shares. But the two indices converged towards expiry, finally meeting at the last minutes, known on some exchanges as the "witching hour".

Trading was very intense in the last days before expiry, as traders switched positions from September futures to December ones in a process known as "rolling". They did this by selling September futures, and at the same time buying a similar number of December contracts.

It cost money because December futures still had a premium over shares, and would trade at a higher price. This gave all the brokers on the Simex floor a chance to demonstrate their prowess, as they tried to achieve the transaction for their clients as cheaply as possible.

Despite the problems of the five eights account, Leeson was determined to excel in this test, the first time he had faced it. A trader could roll futures by doing the two sides of the deal – in this case, the September sale and December buy – separately. However, this meant taking a risk on the market moving between the two deals, and a less risky method had developed on Simex. The two sides of the transaction could be done in a single deal, called a "roll".

A trader could walk to the Nikkei futures pit, and buy a roll at a single price. As the early days of September passed, traders could be seen more often at the Nikkei pit making the sign for a roll, a thumb and forefinger pinched together repeatedly. The price of a roll was set by the gap in prices between the September and December contracts.

When the September contract was trading at 18,000 and the December one at 18,095, a trader could sell a roll on the two for 90 points, and buy one for 100, or Y50,000. It was expensive for customers, and a trader who could offer a better price could attract lots of business.

Leeson soon started offering far better than market prices for rolls. In the run-up to expiry, he was given a big order by Banque Paribas, a French bank which was among Baring Securities' largest customers. First for Paribas, and then for Barings' Tokyo traders, Leeson consistently beat the rest of the market by up to 20 points per roll.

This meant that a trader rolling 100 contracts would gain Y1m (£4,500) by doing so through Leeson instead of another broker. Paribas was pleased with the results, and started to direct most of its orders for rolls to Barings Futures. Leeson's keen execution of rolls also came in useful in Tokyo, where it boosted the profits of Barings' traders.

Although Leeson had been seen as a good executor of orders before then, the September rolls made him stand out. "Amazing job, Nick," Ming San Lee, a Tokyo trader told him, as Leeson produced yet another keenly-priced roll. Some of the traders assumed Leeson must be taking trading risks to get such good prices. He could do that by making his own rolls rather than going to the Nikkei futures pit to buy them. The Nikkei was rising sharply, which would have given him an opportunity to first buy December futures, and then wait until the price gap closed before selling September ones.

This was known as "lifting a leg" or "legging", because it involved keeping one side – or leg – of a matched contract open. It appeared to some that Leeson must be legging to be offering such prices. Richard Magides, a trader working for Barings in Hong Kong, rang Leeson to warn him of the risks of legging. "It's not worth putting your balls on the line," he said.

Magides knew that if the market moved unexpectedly, the price gap would widen rather than narrow and Leeson would be in trouble. What he did not know was that Leeson had a solution at hand for any trades that went wrong, leaving him with rolls that were too expensive to sell. He could dismiss them as "errors", and hide them away in the five eights account.

In his own mind, Leeson saw the good rolls as genuine, a mark of his trading prowess. The bad trades were something else entirely: just mistakes made by his floor traders. He did not acknowledge the inextricable link between the two: he was starting to siphon money out of Baring Securities into the hands of its grateful customers.

As he did so, he inflated his own reputation. Leeson had to carry out about 10,000 rolls each quarter. Most went to Barings customers, although some were for its traders. By handing out rolls at a knock-down price, Leeson in effect gave away Y100m (£450,000) from the 88888 account during September 1992, only his third month of trading. It was hardly surprising that he was becoming popular.

Six months later, at the March 1993 witching hour, word had spread of Leeson's powers of execution. Killian's salesmen in Tokyo started charging a fee to customers who wanted to buy Leeson's rolls. Fuji Bank, Chemical Banking, and Dean Witter were all keen to buy, and his prices were so out of the ordinary that they were charged a fee of Y2,500 (£11) per roll.

By consistently giving money away, Leeson was digging a hole for himself in Account 88888. He convinced himself that he could gamble his way out of it by holding futures in the account that would gain money on market movements. For nearly a year after he started his deception, his tactic failed. But in June and July 1993, he almost escaped.

As the Nikkei market stabilised in the late spring, Leeson managed to gamble his way back to break-even in the five eights account. By July, he had retrieved the money he had squandered. One Friday night, he and Lisa had a barbecue at home with friends. Leeson confessed to his wife that he had been through some problems at work, and at one point had been £1m down. But it was now all right, – he had made up his losses.

She was shocked, and urged him not to take any similar risks again. But he could not kick the habit of using Account 88888 without disclosing an uncomfortable truth to those around him: he could only conjure up his amazing trades by using it to take losses. Without it, there would be little praise and recognition. He soon started to use 88888 again.

The pressure on him quickly escalated. By autumn 1993, losses in five eights had built up once more. In the three months since his failed attempt to stop, he had buried losses of £5.5m. Leeson urgently needed to find a new way of generating cash to cover the hole in the accounts. The solution befitted his experience as a settlements clerk.

Leeson invented a trading operation which he could carry out from Simex that appeared to require huge flows of cash from London. This scheme – which became known as "switching" – later came to play a central role in Barings' collapse, because it allowed Leeson to appear to be generating risk-free profits while actually dragging the bank further and further into trouble.

Switching relied on the fact that contracts on the Nikkei 225 stock market index were traded both in Osaka in Japan, and in Simex at Singapore. It had struck Barings' Tokyo traders before that there might be profits in switching orders between the two, to exploit any slight differences in price that might arise. By buying cheaply in one market, while selling the identical contract in the other, a trader might be able to make a small amount on each trade, a process known as "arbitrage".

In the spring of 1992, Fernando Gueler, a derivatives trader working for Barings in Tokyo, had tried to arbitrage gaps between prices on Osaka and Simex. But although he had made small profits, he had been badly caught one day when one market moved against him.

For an honest trader, the profits were too small for the risks. But Leeson had another reason to make switching appear worthwhile. Simex had tried to encourage arbitrage by allowing firms with contracts which matched on the two exchanges to net them off against each other before depositing the cash collateral known as margin. No-one in London knew this rule, and Leeson kept it quiet from Gueler.

This gave Leeson an opportunity. He could build matched positions on Simex and Osaka, and demand a large amount of cash from London to pay margin. However, the netting rule would allow him to put some of the cash on one side. Instead of depositing it with Simex, he could retain it at Citibank in Singapore, and fill the hole in Account 88888.

But Leeson could only run such a fake operation if it appeared to his bosses in London to be making profits. In November 1993, as he stepped up his switching activity to draw in cash for Account 88888, he distracted attention by manufacturing profits. Leeson placed Y750m (£4.5m) of apparent profits into the accounts of Baring Securities in Japan in November, taking compensating losses into five eights. The Tokyo traders were impressed at his skills, although it was hard to see how he was making so much money. When Gueler tried to explain why at a staff meeting in early December, he trailed off awkwardly.

Leeson ended 1993 with losses of Y4.5bn (£23m) in Account 88888. London was unaware of the losses, since Account 88888 was still concealed. Indeed, Leeson's operation was scarcely visible from the commanding heights of Barings' London office. That was about to change – but in the most dangerous possible way.

TOMORROW: Where did the conspiracy theory come from?

THE JARGON

Future: Financial contract. Value depends on future price of a commodity such as orange juice, or financial asset such as shares or bonds.

Option: Financial contract giving the holder the right, but not the obligation, to buy an asset at a set price in the future.

Margin: Cash or other collateral deposited with a derivatives exchange by traders in proportion to the current value of their holdings of futures and options.

Simex: Singapore International Monetary Exchange, the futures and options exchange in Singapore.

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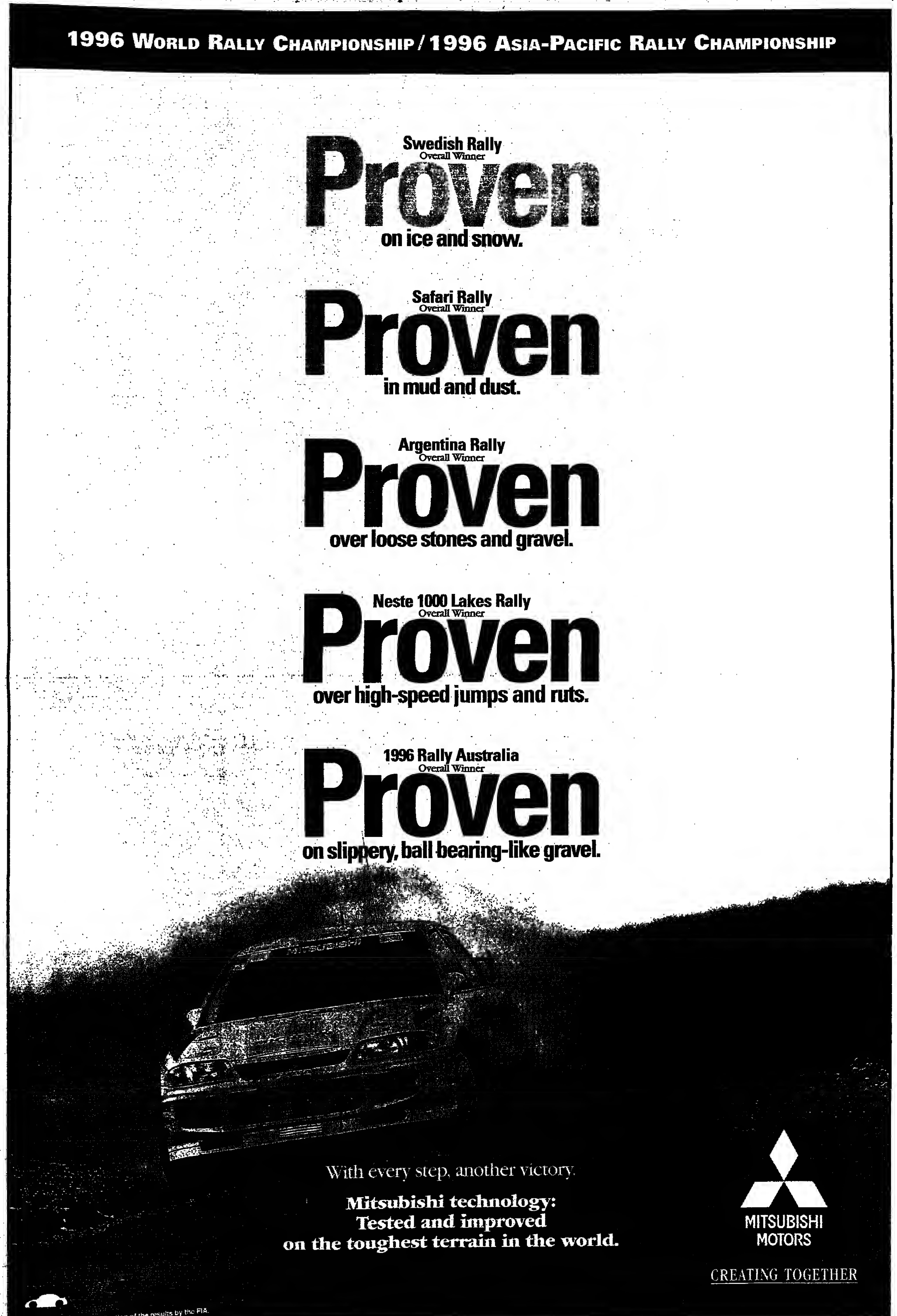
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Swedish Rally
Overall Winner
Proven
on ice and snow.
Safari Rally
Overall Winner
Proven
in mud and dust.
Argentina Rally
Overall Winner
Proven
over loose stones and gravel.
Neste 1000 Lakes Rally
Overall Winner
Proven
over high-speed jumps and ruts.
1996 Rally Australia
Overall Winner
Proven
on slippery, ball bearing-like gravel.
With every step, another victory.
Mitsubishi technology:
Tested and improved
on the toughest terrain in the world.
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CREATING TOGETHER
Subject to the official publication of the results by the FIA.

NEWS: UK

Churchill's vision of Europe recalled

By Quentin Peel in London

Mr Malcolm Rifkind, the British foreign secretary, will today attempt to revive a positive view of European integration as a partnership of nations, not a United States of Europe.

On the 50th anniversary of Sir Winston Churchill's speech in Zürich, when Britain's wartime prime minister first presented his vision of European reconciliation to heal the wounds of the second world war, Mr Rifkind will use the same city to launch his appeal for a flexible European Union. At the same time he will throw his weight behind the drive for the enlargement of both the North Atlantic alliance and the European Union to central and eastern Europe, setting 1999 as the target date for the first new members of Nato. The first wave of EU enlargement should follow "as soon as possible after that", he says.

His speech to a Churchill commemoration conference will amount to a ringing endorsement of the achievements of the EU and Nato, likely to anger some of the governing Conservative party's most passionate Eurosceptics.

He will also praise Germany, seen by the Eurosceptics as the architect of excessive European integration, as the embodiment of Europe's "spirit of reconciliation", and as symbolising "the re-creation of our European family".

He will stop well short, however, of committing himself to further big steps towards EU integration, casting doubt on the whole project for economic and monetary union.

He will also make an urgent plea for flexibility in EU membership to be defined with extraordinary care if the EU is to remain united.

In a text published yesterday in London he says: "Flexible arrangements should not be imposed against the wishes of some member states.

"If monetary union goes ahead, the European Union will be divided into two groups of members for the foreseeable future, regardless of any decision by the United Kingdom to participate in a single currency or not." Around half the member states, and all the 12 applicant countries from central and eastern Europe, would be unable to meet the convergence criteria for Emu "for many years... Such a divided Europe was not what the founding fathers had in mind."

He will insist, however, that when Sir Winston proposed his vision of a "United States of Europe" in his Zürich speech, he did not see Britain as a full member, either. Finally, Mr Rifkind says, Sir Winston described Britain, the US and the Soviet Union as being "the friends and sponsors of the new Europe", rather than its full members.

UK NEWS DIGEST

Public spending 'running high'

Government borrowing in August outstripped last year's levels, casting fresh doubt on the public sector borrowing target and on tax cuts in the national Budget to be announced in November. The Office for National Statistics said the government borrowed £5bn ($7.8bn) last month, excluding privatisation proceeds, to cover the shortfall between spending and tax revenue.

This was up on the same month last year and was higher than City of London economists expected. Lower value added tax revenues, which were about £1bn below levels in the same month last year, were blamed for the revenue shortfall. Including privatisation proceeds, the public sector borrowing requirement was £4.5bn in August.

This left the PSBR in the first five months of the current financial year at £13.4bn, below the £16.7bn recorded at the same stage last year.

The Treasury insisted that the government was still on track to meet its PSBR target for the whole year of £27bn but some economists remain unconvinced.

Graham Bowley

■ WATER INDUSTRY

Union supports French takeover

Unison, the public services union, yesterday stepped into a controversial water takeover battle by endorsing a proposed joint bid for Mid Kent Holdings by two French companies.

Mr Bob Brandley, senior regional officer for Unison in the south-east of England, said Unison supported the proposed takeover bid by General Utilities and Saur because, unlike Mid Kent, they recognised unions.

Mr Brandley said his members, who included about 80 of Mid Kent's administrative staff, would feel more secure with French owners in spite of the fact that o takeover of Mid Kent would involve reductions in the number of its white collar staff. The proposed jeint bid is currently being reviewed by the Monopolies and Mergers Commission.

Leyla Boulton

■ INFORMATION TECHNOLOGY

Western skills shortage warning

The IT industry faced a growing skills shertage, delegates at the international Data Corporation annual Information Technology forum in Paris was told yesterday. Mr Peter Rowell, chief executive of Regent Associates, the UK-based mergers and acquisitions group suggested that countries such as India, the Philippines and eastern Europe, which had large pools of skilled but relatively low-cost labour, should benefit as programming in the west shifted offshore.

Mr Rowell also warned of an imminent shake-out among Internet access providers – specialist companies which provide connections to the Internet. "I don't think there will be many Internet access providers left within one or two years," Mr Rowell said. Eventually the market would be dominated by the traditional telecommunications companies such as British Telecommunications, he said.

Paul Taylor

■ COMPUTER SERVICES

US group wins courts contract

The contract to supply computer services to all county courts and Crown Court centres in England and Wales has been awarded to Electronic Data Systems, the US-based computer services company – under the government's private finance initiative. The contract is estimated to be worth between £20m ($31.2m) and £25m to EDS over seven years.

Robert Rice

Inventing ways to beat rival producers

By Peter Marsh

A nevel system fer packaging lipsticks and a techniqne for "recycling" old machine toels were among the winners at last night's achievement awards backed by the Department of Trade and Industry and the Engineering Council, the main promotional body for qualified engineers.

The manufacturing industry awards, organised by Miller Freeman, a publishing company, have been handed out for the past three years and are intended to foster innovation.

Among the other winners in 17 categories of awards were Jaguar for a production line in the Midlands town of Coventry for its XK8 car, instrument maker Celsis for a hand-held device to check for contamination in restaurants and food shops, and Pace Micro Technology, an electronics company, for satellite receiving equipment.

The winner of the eward in the category for packaging systems was a machine for pntting plastic sleeves on cosmetics, food and other consumer goods at the rate of about 250 a minute. It was developed by Turpins Packaging Systems, based in Clacton-on-Sea, Essex.

Such sleeves have been particularly suited for food products where the maker wants to prove to consumers that the items have not been tampered with.

Mr Mike Freeman, chairman and owner of Turpins, has been awarded about 70 patents for packaging inventions in the 30 years he has been running the company. "Bnt patents don't connt very much; in this business you've got to be first and fast to keep ahead of the competition," he said. His company employs 60 people and has annual sales ef about £3m ($4.68m).

Johnson Matthey, the metals cempany, uses the systems for shrink-wrapping gold bars to stop them getting scratched in transit between vaults.

The award in the factory equipment category went to Swiftlevel, a Liverpool company which sells £40,000 machine tools made partly from "cannibalising" components from redundant tools.

The company, set up in 1992 by Mr Philip Wilkinson, uses as raw materials machine tools dating from the 1950s and produced by Brown & Sharpe, of the US. These machines are purchased from scrap yards and machine tool dealers for about £600 each. The company has a staff of seven producing annual sales of about £1m.

Brendan Corr

All wrapped up: Michael Freeman, the chairman of Turpins Packaging Systems, with his latest award-winning machines

Minister to discuss Nazi gold restitution

By James Blitz, Political Correspondent

The British government is for the first time raising the possibility of transferring around 4,000kg of gold which it recovered from Germany after the second world war to the families of holocaust victims.

The gold, which has a present day value of around £31m ($48.36m), has been in the vaults of the Bank ef England – the UK's central bank – for 50 years. But in a move that could put more pressure on Swiss banks to investigate their own reserves of Nazi gold, the UK is to discuss whether the bullion can be transferred to a Jewish group organising restitution on behalf of holocaust victims.

Mr Malcolm Rifkind, UK foreign secretary, yesterday said he would raise the possibility of such a transfer after meeting opposition Labour party MP, Mr Greville Janner, who has highlighted how large quantities of gold plundered by the Nazis reside in European central bank vaults.

Mr Janner wants the Bank of England gold transferred to the World Jewish Restitution Organisation (WRJO), which transfers plundered Nazi funds to holocaust survivors. The Foreign Office confirmed Mr Rifkind would look into the issue.

The 4,000kg of gold in the Bank of England's vaults is held in the name of the UK, US and France – the members of the post-war Tripartite Gold Commission.

China is 'most attractive emerging market'

By William Lewis in London

UK companies see China as the most attractive emerging market to invest in but remain unsure about Russia, a survey of executives has found.

China has 25 times more foreign direct investment than Russia.

A survey of 100 executives working at 600 of the largest public companies in the UK commissioned by Control Risks Group, the political and business risk consultancy, also shows that Nigeria is seen as the least attractive emerging market.

Survey participants were asked to judge the prospects of 40 emerging economies and placed political stability and security at the top of their list of concerns.

Overall more than 75 per cent of UK companies with international operations are investing in emerging economies. India was judged to be the most "promising" market for the future, with 80 per cent of participants forecasting increased opportunities over the next five years.

Two-thirds of survey participants said they favoured some form of local partnership when investing in emerging markets, while only 12 per cent said they prefered to invest alone. However, companies said fraud and criminal activity carried out by partners was a major cause of concern.

Mr David Battman, head of research at Control Risks, said: "Many companies still face considerable challenges on at least two fronts: adjusting to often ambiguous business and political environments, and combating problems of corruption and organised criminal activity."

Mr Battman said that ahead of the recent Russian presidential elections "a number of Control Risks' clients operating in Russia found their local associates behaving increasingly strangely". This behaviour ranged from demands for major credit extensions to "prolonged and unexplained absences from Russia". Control Risks said this behaviour was influenced by "the jockeying for patronage and influence in anticipation of June's presidential elections".

However, UK companies said they believed opportunities would increase in Russia over the next five years.

BMW order goes to specialist group

By Haig Simonian, Motor Industry Correspondent

The export potential of Britain's motor components industry was underlined yesterday after BMW awarded its biggest single contract with a UK manufacturer to a company making high-technology flywheels for its new generation of car engines.

The German luxury carmaker, which owns Rover, has signed a deal worth up to £17m ($26.52m) a year with Automotive Products, a specialist engineering company based in the Midlands, to supply speed-sensitive flywheels for BMW's forthcoming family of four and six-cylinder engines.

The company claims its flywheel goes further than any existing flywheel in reducing vibration from a car's engine and gearbox.

It is based on an innovative design which uses two flywheels attached to the crankshaft and gearbox of an engine linked via a special damping device.

The deal highlights the growing appeal of Britain's components companies thanks to competitive pricing and innovative engineering.

Mr Brian Gaunt, the chief executive of Automotive Products, said: "It is widely recognised within the industry that BMW require exacting standards from their component suppliers, and so we are doubly delighted in the award of the contract."

Automotive Products, which gained independence after a £181m management buy-out from the BBA industrial group in April 1995, has invested £10.6m in a new factory to produce the flywheels at its Leamington Spa site about 100 miles north of London.

The modular facility, which is due to be completed next August, will be fitted with the most advanced automated machining and assembly facilities currently available, said Mr Bob Bryant, Automotive Products' sales and marketing director.

He was reluctant to say whether the BMW contract would create jobs, but said that netting a "high-profile" customer such as BMW could influence its negotiations with other carmakers and prompt further business and employment.

Automotive Products, which specialises in braking and transmission equipment for the motor industry, employs about 2,000 people and made operating profits of £7.3m in its first nine months as an independent manufacturer last year.

● Ford yesterday asked British owners of some Fiesta models to take their cars to dealers for adjustments to a reported brake pedal problem. About 81,000 Fiestas and Courier vans are involved.

International rescue for car components

The imminent arrival in the UK of eight international motor engineers in an attempt to raise standards in the automotive components sector is a sign of both the stark realism and the sheer ambition of the industry.

On the one hand the £15bn ($23.4bn) a year industry realises its standards are so far behind its international rivals that it needs a direct injection of expertise from outside Britain. On the other, the steady flow of inward investment in the industry has given it the confidence to compete in global markets.

The result is a unique programme which has brought together rival car manufacturers to help the UK. Honda, Nissan and Toyota are planning to send two senior engineers each. Volkswagen and General Motors will send one. Negotiations have yet to be completed, but they are expected to arrive within two months.

All the engineers represent producers with a UK manufacturing presence except Volkswagen, which is keen to purchase more components from the UK.

The team will pool its manufacturing expertise before running a pilot test to raise standards among 10 UK suppliers. If all goes well, it will also train up to 30 UK engineers to continue the work in the wider industry, before their departure in 18 months' time.

At the project's heart is a belief in the principles of quality, cost and delivery which have been the touchstone of inward investment in the UK motor industry. But there is widespread concern that the working practices of the international car producers have not yet reached the industry's smaller suppliers.

The Industry Forum, which is organising the visit – established by the Society of Motor Manufacturers and Traders and the Department of Trade and Industry – is a recognition of the challenge facing the sector. Chaired by Mr Ian Gibson, chief executive of Nissan UK, the forum also includes key figures such as Mr John Neill, chief executive of Unipart, and Mr Trevor Bonner, managing director of GKN's automotive products division.

Mr Graham Broome, the forum's chief executive, said: "We have seen Honda, Nissan and Toyota bringing to our doorstep examples of Japanese-style working practices that transcended cultural barriers. But these manufacturers can only go so far down the supply chain. Their first-tier suppliers have been introduced to these global practices. Further down, the learning process is nowhere near as fast as we would wish."

Eight overseas engineers have been chosen to help raise manufacturing standards

Benchmark studies comparing Japanese suppliers and their international rivals paint a gloomy picture of the 6,000 components companies in the UK. According to Andersen Consulting, Cardiff Business School and Cambridge University, UK productivity is less than half that of the best Japanese suppliers and product defect rates are 100 times worse than the best plants in Japan.

It was against this backdrop that the £4m forum was set up last November. It is a sign of the complexity of the talks with the international motor companies that it has taken a year to gain a full commitment.

The project traces its beginnings back to 1993 when the DTI launched its Learning From Japan programme, in which 12 smaller components companies visited counterparts in Japan. Their experiences were distilled into a series of principles such as the elimination of waste, new product development and the benefits of teamworking.

The latest project received a fillip this month with the arrival of Mr Broome in his new post as the forum's chief executive. Mr Broome has worked as both a manufacturing director at Rover, and managing director at Bundy, the components division of TI Group.

It is this mix of experience – combining the often conflicting interests of suppliers and manufacturers – that is one of the aims of the DTI and the SMMT.

The changes to the supply chain have been rapid. Rover, for instance, has reduced the number of its suppliers from 2,000 to less than 500 during the past five years. Such changes put increased demands on surviving suppliers to develop more complex products at higher levels of quality. The industry admits that if it does not raise its standards quickly, overseas competitors could soon replace UK companies in the supply chain.

"The message of globalisation is now hitting home," Mr Broome said. "It is not just a question of satisfying local vehicle manufacturers here in the UK. There is huge export potential if you can improve the components supply industry which counts for the lion's share of the cost of a motor car."

Richard Wolffe

BUSINESS AND THE ENVIRONMENT

Improved techniques and collection schemes have led to a surge in carton recycling, says **Greg McIvor**

Recovery package

No space wasted: the Varkaus paper mill run by Enso, which is keen to raise its environmental profile

Drinks cartons rank as one of this century's most successful packaging innovations. Around 110bn liquid beverage cartons (LBCs) are produced globally each year and the number is growing fast. In Europe, the market is projected to expand by 8 per cent a year into the next decade.

But spreading waste mountains have prompted criticism from environmentalists. Only a fraction of LBCs are recycled; most are dumped in landfills or incinerated. The inability of governments, municipalities and producers to evolve effective collection systems has been the prime sticking point.

But this is changing. New recycling technology and the introduction of pioneering collection schemes have prompted a sharp rise in the proportion of LBCs recovered from Europe's household dustbins. Some 12 per cent of cartons in Europe are recycled, a proportion which is steadily growing.

A joint venture launched this year between Finland's two largest forestry companies, UPM-Kymmene and Enso, aims to recycle 70,000 tonnes of collected cartons annually to produce industrial coreboard for use as paper and textile rolls.

The collaboration, known as Corenso, relies on imported cartons. These come mainly from Germany, the only EU state with an effective nationwide collection system, but also from Belgium and the UK.

A big advantage of recycling LBCs is the quality of the fibres; cartons contain no filler materials or colours because printing is done directly on to the thin outer layer of polyethylene.

"This is a real business opportunity," says Matti Salste, director of environmental affairs at Enso's packaging boards division. "Liquid beverage cartons yield a better fibre than the birch pulp we had been using. And because it is recycled it is cheaper."

Carton-based cores are lighter and thinner than traditional cores, he says, but keep their strength. Enso believes the added properties will not only lift its environmental profile, but boost its coreboard market share.

LBC recycling takes place in 10 European countries, including the UK, France, Sweden and Italy. The US, Australia and Japan have reprocessing facilities. End-products range from toilet tissue and office papers to gypsum board and egg boxes.

Corenso's plant, built at a cost of FM70m (£10m), is the newest and most advanced in Europe. It operates on a "closed loop" and works like a giant washing machine. Rotating drums separate the pulped cartons from their polyethylene lining using water at high centrifugal pressure. The fibre is sieved out and reprocessed. Polyethylene and aluminium foil residues are incinerated, providing the plant's entire energy requirement. According to Corenso, emissions apart from carbon dioxide and water are negligible.

Enso is discussing building a board machine in Germany using similar technology. The mill has also inspired moves in Finland to establish a nationwide collection system for used LBCs, a scheme which aims to recycle 20 per cent of the country's total LBC consumption within five years.

Lyn Trytsman-Gray, director-general of the Alliance for Beverage Cartons and the Environment, a Brussels-based lobbying group, says developments in recycling have been driven by Germany's proactive approach to recycling (where the proportion of recovered LBCs has risen from zero to 50 per cent since 1990) and by the EU's packaging directive. This states that member states must recycle 25 per cent to 45 per cent of household waste and recover 50 percent to 65 per cent by 2001.

The success of LBC recycling is likely to hinge on the implementation of the directive. Salste suggests there is sufficient capacity to recycle the entire 1m tonnes in Europe each year, but "for different reasons the companies are not keen on using it". For instance, they prefer recycled fibre from cheaper sources, such as waste paper. An additional hurdle is that the high fibre content of LBCs makes them popular as fuel. In Denmark, the cartons are incinerated at municipal heating plants. In Finland, LBCs are used to fire saunas.

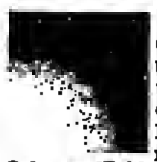
Tetra Pak, the Swedish company which pioneered LBCs and today accounts for almost half the world supply, says recycling has been slow to take off because of lack of co-ordination between manufacturers, local authorities and end-users.

Teresa Presas, Tetra's director of external and environmental affairs in Europe, says the contacts are only just beginning to develop. "It is entirely new. Industry has never had [such] a dialogue with local authorities, and producers have never had a dialogue with waste managers. But it is happening now."

Tetra Pak believes municipalities should be responsible for collection and some funding, producers should provide additional financial backing and consumers should be responsible for waste separation. The company does not believe producer accountability extends to participation in waste management, although it acknowledges different solutions can fit different countries. In Sweden, Tetra Pak part-owns one of the largest planned packaging recovery companies in the country's nascent recycling system.

Light thrown on solar panel manufacturing

Andrew Baxter assesses progress towards changing production processes and reducing factory costs



Solar spotlight

"About 30 per cent of what was produced here used to go straight on to a skip," says Philip Wolfe. "We needed to obtain a much higher throughput and yield."

Wolfe is managing director of High Wycombe-based Intersolar, which took over a solar panel factory at Bridgend, Wales, in 1993 and spent 18 months making it run better. After a further two years of full-scale production, its yield of functioning panels has risen to between 90 per cent and 95 per cent.

Developing new applications for solar power depends crucially on reducing the costs of installing it. Increasing the light-conversion efficiency within solar cells is one way to do this, but companies in the photovoltaics (PV) industry are also stepping up efforts to improve their process and manufacturing techniques. "If the market is going to open up, the key is manufacturing," says Wolfe.

The dream for PV companies is to create a virtuous circle where the costs per watt of installing solar power continue to fall, boosting demand and justifying investment in larger factories where economies of scale – and mass production techniques which the industry cannot yet exploit – further reduce the cost.

Progress has already been made. Years of experience in production, along with continuing research and development work, have driven down the total cost of PV systems from tens of thousands of dollars per watt in the 1960s to about $6 today.

A recent survey of 10 US companies in the $118m US Photovoltaic Manufacturing Technology Project, partly funded by the US government, found that the weighted average cost of manufacturing PV modules – solar cells or panels complete with frame, glass protection and junction box – had fallen from $4.50 per watt in 1992 to about $2.20 this year, while production capacity had risen by more than a factor of six. These figures, however, are based only on the costs directly associated with module production and exclude costs of marketing, sales and administration.

On both sides of the Atlantic, PV module producers are focusing on the details of each stage in the manufacturing process, so that the overall efficiency can be improved and product costs reduced.

Intersolar is one of Europe's largest producers of thin-film silicon panels, in which a film of silicon less than a micron thick is deposited on glass, sandwiched between layers of tin oxide and aluminium. Lasers are used to scribe lines on to the surfaces to create the connections.

The process uses much less raw material than the more traditional method of growing a single crystal or ingot of silicon, cutting it into wafers and building up solar panels by linking individual cells together. But the indirect costs of production for thin-film manufacturing are high, and maximising output from the machines used in the process is a key to reducing overall costs.

Much of the hardware at Bridgend remains unchanged from 1993, but new software, much of it developed in-house, has been installed to monitor the process better. The priority has been to get the processes running correctly from the start, as it is difficult to test the panels on the production line. A typical problem in the past, says Wolfe, was an insufficient vacuum in the deposition chambers – air would get in and cause contamination. A gas analyser has been installed in the metalliser which deposits the aluminium backing layer, to check on contamination.

The changes in equipment, and in the production philosophy, have reduced the total costs of Intersolar PV modules from about $2.75 per watt when it bought the plant to $2 today. The total average power from one batch of 24 panels has risen from 260W to 320W.

Wolfe's target is to get total costs for a PV module well below $2 a watt next year by increasing the plant's annual output to 3MW from the original 1MW. This will be achievable by getting 2½ times as much panel area produced in a given time, and slightly increasing the efficiency of the solar cell.

In the US, the world's largest manufacturer of solar cells and modules, California-based Siemens Solar, has put its 25MW a year factory through a similar "reformation" process. The Camarillo plant uses the single-crystal technique, and costs have been cut in all four stages of manufacturing – ingot growth, wafering, cell fabrication and module fabrication.

Further savings are foreseen: for instance, by reducing the wafer thickness to increase the wafer yield per ingot length, and overall the process has the potential to achieve module costs below $2 per watt, says the company.

Siemens Solar and other US PV manufacturers have also benefited from the PVMat project, which was designed to help the industry improve manufacturing processes.

One project for improving the single crystal process looked at how to reduce the amount of waste when wire saws are used to cut the ingot into wafers. "It is like a cheese grater," says John Benner, director of the NREL's Center for Photovoltaics and Electronic Materials in Colorado. "You lose less silicon by making the wires thinner. But as you do it, the potential for breaking the wire rises."

Some economies of scale will emerge over the next few years as the Camarillo plant is expanded and suppliers such as Intersolar build new plants.

But the search for lower costs is unlikely to end there. Wolfe can "see a route" to reducing costs to 50 cents per watt, at which point solar energy would be generating electricity at UK pool prices.

That would require a plant with a capacity of 500MW a year, more than five times larger than the current world solar energy market. If plants were ever to reach that size, it would imply that the total market was measured in gigawatts (thousands of megawatts).

This is part of a continuing series. The previous article appeared on September 4.

NOTICE TO THE HOLDERS OF THE WARRANTS TO SUBSCRIBE FOR SHARES OF COMMON STOCK OF

NISHIO RENT ALL CO., LTD.
(the "Company")

Issued in conjunction with
U.S. $60,000,000 1 per cent. Guaranteed Bonds Due 1998 with Warrants
(the "Warrants")

Pursuant to Clause 4(A) of the Instrument dated 3rd March, 1994 relating to the Warrants (the "Instrument"), notice is hereby given that the Company resolved at the meeting of the Board of Directors held on 30th August, 1996 to make a stock split in the form of the free share distribution of shares on 15th November, 1996 to shareholders of record as of 30th September, 1996 (Japan time) in the ratio of 0.1 new share for each one share held by them.

Such stock split requires adjustment to the Subscription Price pursuant to Clause 3(I) of the Instrument as follows:

Subscription Price before adjustment:	Yen 2,706
Subscription Price after adjustment:	Yen 2,460
Effective Date of adjustment:	1st October, 1996 (Japan time)

Nishio Rent All Co., Ltd.

18th September, 1996

By: The Sumitomo Bank, Limited
Principal Paying Agent

ARTS

Television in the US/**Jurek Martin**

The politics of going local

Tip O'Neill, the late, great Speaker of the House of Representatives, is already in every dictionary of quotations for once saying "all politics is local." That is true to an infinite degree when it comes down to American presidential elections and television.

One glittering example already stands out this year. Bill Clinton got saturation coverage out of a campaign manager's wildest dream – and at virtually no cost – of his brilliantly executed train ride through the midwest en route to the Democratic convention in Chicago last month. It did not matter that reporting on the national networks was reduced to two or three arch minutes a night. To TV stations in the likes of Chillicothie, Wyandotte and Kalamazoo, the presence of a president in full song was *the* story of the month and worth milking for all it was worth.

Oddly enough, Washington, DC, whose only real industry is politics, is just about the worst place to feel this. The capital has its resident talking heads coming out of our tubes like an army of hydras, but their sophistries are broadcast for a national eudience and available everywhere. The local problem is that this is a one party town – Democratic presidential candidates routinely get 80 per cent of the vote on the first Tuesday in November – which means there is little point in winners or losers pouring advertising or other money down e one way drain (neighbouring Maryland and Virginia are a different matter but, beyond the immediate Washington suburbs, they are served by different stations.)

Still, here as elsewhere, the output of local TV news dwarfs that of the national commercial networks. The Big Three offer a half hour programme each night (reduced to 22 minutes by commercial breaks). Local stations go live as early as four in the afternoon and witter on for two or three more hours before giving way to the networks. That is a lot of air time to fill, unless there has been a particularly gruesome serial murder, or e hurricane is passing through or the local football team has won a game it was not expected to. Ralph Nader, running for the Green Party, reckons he can get on as often as he wants without paying a cent for commercial time and he is probably right.

Changes in technology have also made local TV much more mobile than it used to be. A mini-cam, a cellphone and a cut price air ticket can send a local TV reporter anywhere in the country – to primaries, conventions and debates – thus further reducing reliance on feeds from the networks to which they may be affiliated. The proliferation of cable channels (about 60 are available in Washington) adds to the dispersal effect, as well as adding to the daily forest of cameras and boom-mikes that obscure candidates from their notional audiences, the voting public.

If the heavyweight writing press feels it is losing its gatekeeper role of what is fit to print to the tabloids – the downfall of Dickie Morris, Bill Clinton's toe-sucking political strategist, merely being the latest case in point – the same is true in the electronic media. Once a lifting of the left eyebrow by Walter Cronkite, the retired CBS doyen, could set the tone for TV coverage, but now *Larry King Live* on CNN, small audience and all, is where news is as likely to be made.

Not that this is all bad. It may have been true that during the San Diego and Chicago conventions local stations were mostly intent on showing their cities in the best possible light but there was still room for some decent analytical reportage. And if the local stations do not do it – and the commercial networks fear for their ratings if they devote too much prime time to politics – then there are plenty of other TV outlets to fill any void.

Political junkies, for example, get up each morning and thank C-Span. Its two cable channels are contractually obliged to broadcast live proceedings in House and Senate when they are in session and fill up time with political talk when they are not. It also covered, from gavel-to-gavel, both conventions with minimal punditocratic intervention, versus the hour a night offered by the networks, much of it devoted to "the big speeches" and its own and imported analysts. (To be fair, NBC also went into convention partnership with the Public Broadcasting Service's wholly admirable anchorman, Jim Lehrer, and offered a far more thoughtful service to viewers than the frenetic "here I am with the Alabama delegation" CNN.)

It is not easy for the old network heavyweights to accept a reduced role. One of them, Ted Koppel, anchor of ABC's *Nightline*, left San Diego in a huff proclaiming of the tightly scripted-for-TV convention "there is no news here." He may have been right but the arrogance – if only in a minor key by Paxman's standards – did nothing for the reputation of the media, if it has any to preserve.

The networks, though not, naturally, Murdoch's, are also having some difficulty coming to terms with a proposed innovation designed to allow candidates to communicate directly to the public without the intermediation of anchors or ad-men. Paul Taylor, formerly of the Washington Post and with the backing of Cronkite among others, wants them to set aside two minutes of free prime time a night in the last month of the campaign for plain talk from Clinton, Bob Dole and, perhaps, Ross Perot and even others. As of last week, he was still "in negotiations."

What TV is only too happy to accept – because they are paid for – are political commercials. There is e school of thought which believes this year's crop is less negative than 1992 or 1988, the worst year for attack advertising in living memory, but the improvements seem strictly relative. And even if some of them have been saying "vote for me" rather than simply "don't vote for him because he is a liar, thief and knave," the betting is that they will get dirtier as election day looms.

But at least there will be the televised debates – three for the presidential candidates, one for their running mates – and that can make for compelling viewing capable of deciding the election if it gets closer than it is now. *Mind you, they do coincide* with the climax of the baseball season where literally everything, not just politics, is local.

Theatre/**Alastair Macaulay**

Dreams and nightmares

The Royal Shakespeare Company would usually be simply splendid, were it not for (a) its actors (b) its directors. Most of the texts it performs are, of course, first-rate; its designs are often adequate, good, or excellent; and the problems it has with musical accompaniment (too much, too film-like, too amplified) are by no means unique to it.

The two productions now at the Barbican Centre are quite dissimilar. Adrian Noble's production of *A Midsummer Night's Dream*, a bright and bubbly affair, has been a hit since it was new in Stratford in 1994, and is now (with a new cast) enjoying a second London season, in the main Barbican Theatre, after a triumphant American tour and after being filmed. Michael Bogdanov's two-part production of Howard Brenton's modern version of Goethe's *Faust*, flashy and sour, divided opinions when new in Stratford last year, and has now arrived at the Pit.

Adrian Noble, the RSC's artistic director, seems to have developed the same policy in his own stagings of Shakespeare that Anthony Dowell has with classic ballets at the Royal Ballet: make sure the designs carry the show. Fortunately for the RSC, Noble has good taste in designers. A few seasons back, Anthony Ward designed for Noble a hit staging of *A Winter's Tale* primarily memorable for its balloons; here, he has designed a *Dream* whose most haunting features are a hanging forest of glow-worm lightbulbs, doorways without walls and a suspended bed-size umbrella. Beautiful – but these designs are a show in themselves.

Like every *Dream* I have ever seen, this one treats Helena and Hermia, with all their heartbreak, as figures of fun. The classic quartet scene of lovers' quarrels is geared entirely to the pace of its physical comedy, with the words only sometimes lending support. This bothered me in 1994; it does so more now, with Katy Brittain playing Hermia with the most exaggerated cry-beby voice since Sara Crowe. Rebecce Egan's too cnte Helena has elightly less sincerity than when she played the role in Regent's Park two years ago. It is not that Noble has encouraged his actors to ignore the text; but he asks them to help it out so busily that it seldom has time to speak for itself.

Ian Hughes plays both Puck and Philostrate with too much emphatically actor-ly self-regard, Leigh Lawson ponderously forces the diction of both Oberon's and Theseus's lines, and Amanda Harris, handsome to the eye and exemplary in projection, only makes incidental points in the roles of Titania and Hippolyta.

The freshest, most multi-faceted, part of this production's casting is now its team of rude mechanicals. I had thought Christopher Benjamin would be too much the old thesp to succeed as bully Bottom; in the event, his expansiveness is here at its most heart-warming and sums up just how life-enhancing Bottom is. Like him, the other would-be Athenian actors of the Pyramus and Thisbe scene are all figures now cherishable, now ridiculous, new touching.

Howard Brenton's version of *Faust* sells Goethe very short, framing the action with "rebearsal" episodes in which "the Poet" disagrees with "the Director", and Michael Bogdanov's staging sells Goethe yet shorter. The Director tries to get away with ending the action with Faust's death and final submission to Mephistopheles; wbereupon the Poet intervenes and restores Goethe'e ending, with Faust redeemed by Gretchen and taking his place in heaven amid flights of angels. Goethe's sublime finale is made here to look deliberately trite, a rushed job of a convenient all-white happy ending. The big witches' Walpurgisnecht (into which, contrary to Goethe, Gretchen is made a victim) is full of leather, dildos, masturbation, and so forth. Coarse stuff.

At the centre of all this is the Faust of Michael Feast. Yon can see why the RSC casts this actor in intellectual-in-crisis roles. It is that Dürer skull-like face, that cerebral manner, and that ascetic Enoch-Powell-cum-Roger-Scruton voice. But Feast works principally to draw attention to his physical and vocal skills. He is not believable, whether he is entering as old Faust, exaggeratedly dragging his feet, throwing down his books, swigging some whisky, and coughing, or is pretending to be the rejnveneted Feust, with a shimmying city-slicker gait. And – whether he is stringing three sentences together in one breath, or tracing pointless vocal rises and falls in mid-phrase – he is merely very artful. Hugh Quarshie's Mephistopheles, genuinely charming even as be obviously turns on the charm, is a breath of fresh air by comparison; and so is Sophie Heyman's radiantly fresh, vital Gretchen.

This *Faust* is a year old, and has presumably been revised. It is too much, admittedly, to wish for revisions to its seldom felicitous use of rhymiug couplets. ("Tbese relics are uniqne/ Enough to make an antique dealer weak"). But what excuse does it have for having Faust say "this companion *with* whom I cannot live *without*"?

In RSC repertory et the Barbican Centre

Christopher Benjamin as Bottom in the RSC's 'Dream' Alastair Muir

Opera/**Richard Fairman**

Giovanni in the fast lane

There is just one stumbling-block, so let us get that out of the way first. For his party et the end of act one Don Giovanni turns up in drag. Yes, that cliché again – e Don Giovanni in sequined evening gown and fur stole has become as predictable as King Lear the comedian and Macbeth the Scottish social worker.

It is just something modern opera prodncers heve to get ont of their system. So now that Katie Mitchell, making her debut in opera with this new production of *Don Giovanni* for Welsh Netional Opera, has got it ont of bers, she can hopefully go on to a successful career in an art-form for which she seems to have an innate talent. There are plenty of old bands who would be glad to have delivered a *Don Giovanni* as fresh and engaging as this one.

A week or two after one of the *Godfother* films came round on television again, there is no missing her point. Updated to the post-war period with a suggestion of gangsters and godliness somewhere on the Mediterranean, the moral issues in Mozart's opera take on a keen edge. Mitchell handles it very skilfully, using simple, atmospheric sets by Rae Smith and breathing new life into the characters.

By the time the rehearsal period was over, each member of the cast had an identification with their roles. Don Giovanni is a moral vacuum, a hit-man who enters with a stocking over his face, challenges a man to a fair fight and then produces a concealed knife. Davide Damiani does not quite make the character develop, but sings with euthority, even if be does not sound very seductive when he goes courting.

In Mitchell's hands Zerlina and Masetto make a particularly touching couple. A world of innocence teetering on the brink of corruption goes across the face of Catrin Wyn Davies's winning Zerlina, as she vacillates between Giovanni's evil clutches and her Masetto, played with disarming naturalness by Devide Baronchelli.

Very little of the singing is emotionally neutral, certainly not Cara O'Sullivan's fearsome "Or sai chi l'onore" and she makes a *stylish job* of Donna Anna's second aria too, despite some lack of body to the voice. Alwyn Mellor struggles a little with "Mi tradi", but her Donna Elvira has presence and a fine, freely-produced soprano. As Don Ottevio, Gwyn Hughes Jones gives notice that be should do well in the bel canto Italian repertoire, wbere Mozartian finesse is not needed.

Arwel Huw Morgan's friendly, bespectacled Leporello and Antbony Stuart Lloyd's less than superhuman Commendatore completed e cast with more strengths than weaknesses. It was kind of Carlo Rizzi to make sure tbat these last two could be heard over the orchestra in the last scene. His conducting is generally quite noisy and drives the drama beadlong after tbe Italian style, the sort of Mozart that would not dare venture near Vienna.

Some people may object to that, but his sizzling energy adds to a *Don Giovonni* whose characters are living very much in the 20th century's emotional fast lane. If the singers complain that they cannot get round the words at his speeds, they should think of the exercise as musical aerobics. A run of performances like this will *do their patter in Rossini* no end of good.

Sponsored by Associated British Ports Holdings plc. New Theatre, Cardiff, until September 30, then on tour.

Lottery benefit for Magna Carta

One of Jacob Epstein's most monumental sculptures, "Jacob and the Angel", permanently enters the Tate Collection today, thanks to a £375,000 grant towards its £500,000 cost from the Heritage Lottery Fund. The 2.4m by 1.2m alabaster work, carved in 1940, had previously been on temporary loan. In the year 2000 it will form part of the permanent collection in the new Tate Gallery of Modern Art at Bankside.

In all, the fund announced 44 more grants yesterday totalling £4m. Among the more far reaching is e grant of £358,000 for the British Library, which will finance the conversion of some of its catalogues, currently only availeble in print, to automated format, enabling them to be held and searched on the computer. Scholars around the world will be able to study and compare texts without leaving their desks. Among the papers to be converted is Magna Carta.

Among the works of art taken into permanent public custody are a drawing by Gainsborough of his two daughters, whicb goes to the Gainsborough Museum in his native Sudbury; and the Estorick Collection of Modern Italian Art whicb, thanks to a £550,000 grant towards a £1.1m project, moves 80 works by such Futurist artists as Bella, Severini and Russolo into the unlikely home of Northampton Lodge, e Georgian building which overlooks Canonbury Square in Islington.

Among numerous grants to help restore steam locomotives is one of £20,000 for the "Princess Elizabeth Society," which will repair this 1930s locomotive, one of only two still in existence. In 1936 the "Princess Elizabeth" was used on a record breaking run between Glasgow and London to test the feasibility of non-stop inter-city travel.

Antony Thorncoft

INTERNATIONAL ARTS GUIDE

ANTWERP

CONCERT
De Singel Tel: 32-3-2483800
● Pieter Wispelwey: the cellist *performs* Britten's Suite No.1 in G, Op.72, Suite No.2 in D, Op.80 and Suite No.3 in C, Op.87; 8pm; Sep 19

BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Südwestfunk-Sinfonieorchester: with conductor Hans Zender and violinist Christian Tetzlaff perform works by Schoenberg and Brahms; 8pm; Sep 20

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Galathee, die Schöne: by von Suppé/Wahren. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Kirsten Blarick, Heidi Person and Peter Edelmann; 8pm; Sep 19

BRUSSELS

CONCERT
Théâtre Royal de la Monnaie Tel: 32-2-2291200
● Katerina Ismailova: by Shostakovich. Concert *performance*, conducted by Valery Gergiev and performed by the Orchestra and Choir of the Kirov Opera; 7pm; Sep 19

COLOGNE

EXHIBITION
Römisch-Germanisches Museum Tel: 49-221-2214438
● Tu Felix Agrippina: this exhibition features images of *members* of the family of the Roman Emperor Augustus. Amongst them is Agrippina, who founded the city of Cologne. Exhibition on the occasion of the 50th anniversary of the Römisch-Germanisches Museum; to Oct 27

OPERA
Opernhaus Tel: 49-221-2218240
● Otello: by Verdi. Conducted by James Conlon and performed by the Oper Köln. Soloists include Frederic Kalt, Hillevi Martinpelto and Ned Barth; 7.30pm; Sep 21

COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Die Jahreszeiten: by Haydn. Performed by *the* Danish National Radio Symphony Orchestra with conductor Ulf Schirmer. Soloists include soprano Ruth Ziesak, tenor John Mark Ainsley, bass Johannes Manov and the Danish National Radio Choir; 8pm; Sep 19, 20

DANCE
Det Kongelige Teater Tel: 45-33 69 69 69
● Romeo and Juliet: a choreography by Ivo Psota to music by Prokofiev, performed by the Royal Danish Ballet. Soloists include Rose Gad and Martin James; 8pm; Sep 20

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery Tel: 44-131-5568921
● David Roberts RA: A Bicentenary Display: exhibition on the occasion of the 200th anniversary of the birth of the Scottish artist David Roberts (1796-1864). His determination and courage in exploring parts of Morocco, Egypt, Syria and the Holy Land that had rarely been visited by Europeans before, set him apart from his contemporaries and brought him lasting fame. *Focused on Robert* Scott Lauder's flamboyant portrait of Roberts in Eastern dress, the exhibition includes paintings, photographs, medals and memorabilia; from Sep 20 to Nov 24

FRANKFURT AM MAIN

OPERA
Städtische Bühnen Oper, Ballet, Schauspiel Tel: 49-69-21237444
● Samson et Dalila: by Saint-Saëns. Conducted by Sylvain Cambreling and performed by the Oper Frankfurt. Soloists include Margit Neubauer, Hubert Delamboye and John Bröcheler; 7.30pm; Sep 19, 21

HAMBURG

OPERA
Hamburgische Staatsoper Tel: 49-40-351721
● Le Nozze di Figaro: by Mozart. Conducted by Stenz and performed by the Staatsoper Hamburg. Soloists include Studer, Bayo, Liang and Fredricks; 7pm; Sep 20

LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Ivry Gitlis and Ana-Maria Vera: the violinist and pianist perform works by Hindemith, Beethoven and Bartók; 7.30pm; Sep 19

EXHIBITION
Courtauld Institute Galleries Tel: 44-171- 6732526
● The Four Elements: this exhibition draws together prints and drawings from five centuries to show the Four Elements – Fire, Water, Earth and Air – in mythology and real life. Included are works from the museum's collection by Manet, Dürer, Guercino, Bruegel, Gauguin, Hieronymous Bosch, Guardi, Rowlandson, Turner, Samuel Palmer, Constable, Piranesi, Tiepolo and others; to Sep 22
Tate Gallery Tel: 44-171-8878000
● Merk Rothko in Cornwall: this exhibition includes works of the post-war American artist who created Abstract Expressionism. The Mark Rothko display is shown in relation to a number of paintings by other artists of that period already on display at the Tate Gallery, such as Franz Kline; to Nov 3
The Hayward Gallery Tel: 44-171-9604242
● Antony Gormley: Field for the British Isles: exhibition of "Field for the British Isles", made by Antony Gormley with the people of St Helens in Merseyside. Over 35,000 small terracotta figures, each different and varying slightly in size and colour, fill the gallery wall to wall; from Sep 19 to Nov 17

NEW YORK

EXHIBITION
The Equitable Gallery Tel: 1-212-554-4818
● Henri Cartier-Bresson in America: exhibition devoted to photographs taken in the US by the French photographer Henri Cartier-Bresson. Comprised of over 100 works selected by Cartier-Bresson himself, the exhibition spans four decades, from 1935-1975; from Sep 19 to Nov 2
The Pierpont Morgan Library Tel: 1-212-685-0008
● A Fine Line, Rembrandt as Etcher: exhibition featuring more than 100 etchings by Rembrandt from the Morgan Library's collection; from Sep 19 to Jan 5

OPERA
New York State Theater Tel: 1-212-875-5570
● Der Rosenkavalier: by R. Strauss. Conducted by George Manahan and performed by the New York City Opera. Soloists include Elizabeth Holleque, Gwendolyn Jones, Nancy Allen Lundy, William Fleck, John Fowler and Stephen Powell; 8pm; Sep 19

PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Fréderick J. Kiesler: retrospective exhibition devoted to the architect/artist Frederick Kiesler (1890-1965). The display gives an overview of his *architectural designs and ideas* and shows a selection of his paintings, sculptures, installations, stage designs and other works; to Oct 21

ZURICH

OPERA
Opernhaus Zürich Tel: 41-1-268 6666
● Il Matrimonio Segreto: by Cimarosa. Conducted by Adam Fischer and performed by the Oper Zürich. Soloists include Malin Hartelius, Isabel Rey, Anton Scharinger and Steve Davislim; 7.30pm; Sep 20

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

WORLD SERVICE

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(Central European Time)

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NBC/Super Channel:

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Ian Davidson

Showdown time

If the French force the pace on EU reform, it will raise issues the UK Labour party is ill-equipped to deal with

The French are pressing for an acceleration of the timetable et the intergovernmental conference which is discussing the reform of the European Union. If they get their way, the ehowdown over the future shape of the Union will come before the end of this year.

This will be bad news for John Major, the UK prime minister, because it will mean that he probably cannot avoid a decisive crisis between the UK and its European partners. But it may be almost as bad news for Tony Blair whose Labour government-in-waiting could find itself having to pick up the pieces after the general election.

Mr Blair is popularly supposed to be more pro-European than Mr Major, and by instinct he may be. Yet Labour's policles in practice are virtually as anti-European as the Conservatives' – in some cases, more so. The result is that a Labour government would be unprepared to deal with the issues that will arise next year if the French bring matters to a head.

The reason for the French urgency is that Mr Jacques Chirac, the president, fears his European strategy could be thrown into jeopardy by the French parliamentary elections in the spring of 1998. If his conservative government were to lose its majority in the National Assembly, he might be unable to ratify a new European treaty.

But the situation could get worse if there were to be no significant fall in French unemployment and the socialists and communists won a parliamentary majority. They might demand a reopening of the terms of economic and monetary union before the starting date for the single currency on January 1 1999. This could amount to a repudiation of long-standing French demands for Emu and the Franco-German strategic alliance.

Some French conservatives are so alarmed they are talking of changing the electoral system to a form of proportional representation that might stop the left winning a majority. But Mr Chirac's main response is to epeed up the intergovernmental conference with the aim of ratifying a new treaty in the second half of next year, well before the elections. And if the treaty must be ready by the middle of next year, consensus over the changee must be reached at the main Dublin eummit in December.

The French say they would be prepared to agree a more modest agenda in axchange for faster progress. But their "scaled-down" list includes progress towards a common foreign and security policy including defence; closer co-operation on justice and home affairs; more majority voting in the Council of Ministers; and a new "flexibility formula" to permit closer integration of an inner core of member states.

Whether there is any chance of this agenda being agreed at all – let alone within France's urgent timetable – may seem a moot point. The intergovernmental conference has been meeting for six months and has yet to move beyond vague generalities.

But if the French succeed in bringing the process to a head, it may concentrate the minds of the majority of member etates on the search for compromises. But since Mr Major's Conservative party will prevent him from agreeing to any significant treaty change which would lead to closer integration, it would also mean a confrontation between the UK and the rest.

There was a time when France and Germany were ready to postpone such a confrontation in the hope that an incoming Labour government would be easier to deal with. Now, it appears, they no longer expect Labour to make any fundamental difference to Britain'e difficulties with Europe. And a new analysis* published next week by tbe Fabian Society, the Labour party think-tank, suggests they may be right.

The central assessment of Graham Leicester, a former Foreign Office diplomat, is that while Mr Blair may want to manoeuvre closer to Britain's main partners in Europe, it will be difficult. This is because the party's position on Europe is uncomfortably similar to that of the Conservatives – in detail and in general.

Mr Leicester's tally of the likely crunch issues in negotiations at the intergovernmental conference corresponds closely with the French agenda. Only on majority voting and other institutional reforms does he think Labour has enough room to reach agreement with the European partners.

On the search for a common foreign and security policy and on justice and home affairs, he judges Labour is at least as opposed to any further integration as the Conservatives. Since the French attach particular importance to the former and the Germans to justice and home affairs, this is not a good starting position. And Labour is even more hostile than the Conservatives to the Franco-German proposal for a "flexibility" clause.

If Mr Blair wants to be in a position to forge European compromises when he comes to power, says Mr Leicester, he will have to prepare the ground for a more accommodating stance. He must prepare his colleagues in the party, the British people and Britain's partners in Europe.

With the French push for a faster timetable, he needs to start these preparations soon. But there is no sign he has even begun. Moreover, Mr Blair has not learned to speak "good European". His rhetoric is the old language of defending the national interest, national sovereignty and the balance of power. It simply won't play in Paris or Bonn.

**Europe After Major: Can Labour Make a Difference? Fabian Society, 11 Dartmouth Street, London SW1H 9BN. £10*

Friends or foes: Tony Blair and Helmut Kohl

LETTERS TO THE EDITOR

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Flexibility is attraction of language

From Mr Henry Ma.

Sir, An international forum to simplify the English language's pronunciation and spelling? Despite his British-sounding name, Mr Selwyn Hodson Pressinger (Letters, September 13) seems to have more in common with Continentals and Eurocrats and their mania for *dirigisme* and harmonisation of practices.

Any living language that experiences decentralised evolution will always have a degree of illogicality and inconsistency. (The only truly consistent language I can think of is Esperanto, and it is so because it was artificially constructed.) What is more, it strikes me that English has become so successful worldwide precisely because of its flexibility and receptiveness to other languages' influence.

If a commission were to codify the English language and set it in aspic, that would probably lessen its appeal. (Think of the absurdities of the French authorities vis-a-vis foreign borrowings.)

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Access not in question

From Mr Matthew J. Turner.

Sir, Perhaps Mr Tony Hales and his fellow industrialists (Letters, September 5) could explain what not being in Emu has to do with access to the single market? Clearly, other European countries, in or ont of Emu, gain as much from trading with the UK as the UK does trading with them. This process, beneficial to all, will continue whether or not Britain shares the same currency.

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Food predictions too pessimistic

From Professor Alex Duncan.

Sir, It may only be brave fools who counter Lester Brown's arresting predictions of disaster on world food markets ("World 'heading for new food crisis'", September 17). Complacency would be a serious mistake where the stakes are so high.

But Mr Brown is in a long tradition of pessimism on overall world food supplies and prices, a tradition in which he and others have consistently been wrong, and he needs to explain why he is right this time. The reality is an astonishing story of past success.

Grain prices on world markets have fallen greatly in real terms from 1860 to the mid-1990s, a trend interrupted (as at present) by occasional short-lived violent spikes. Mr Brown is right that stocks are now so low that the present high prices will take more than one year to pass; but it is not clear thet he is right about long-term prospects.

The market is more resilient than the pessimists think. A period of higher prices would, as we already see this year, cause resources to come back into grain production that were taken out previously as prices fell. The world'e producers appear able to meet the challenge of raising production over the next 20 years in response to the increased demand that will certainly occur, provided that governments follow sensible policies on trade and pricing and provided that they and the private sector combine to keep up investments in technology, skills and infrastructure. On the need for these actions Mr Brown, and even the most optimistic analysts, agree.

More fundamentally, this debate about production should not cause us to lose sight of the real food risks for the future. Hunger will continue to result mainly from failed economic development of nations, and the poverty of households, not primarily because of lagging production. Getting these right is the priority, along with safety nets for those in need.

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Korea exercises checks and balances

From Mr Sung Soo Park.

Sir, The article "Kim: militant moderate or civilian dictator?" (September 2) by John Burtoo contained remarks which reflect a misunderstanding of democracy in the Republic of Korea and which distorted President Kim Young Sam's efforts to right the wrongs of recent Korean history and implement democratisation.

Mr Burton depicted Korea's democracy as lacking the checks and balances of a mature western democracy and argued that immense power resides in the Blue House, the presidential mansion. The fact is that the Korean constitution clearly stipulates the separation of government power between the legislative, judicial and executive branches of the government, and checks and balances are exercised accordingly.

The judicial branch is completely independent of the other branches of government. This is attested to by the recent trial of two former presidents. In reporting the trial, the press abroad generally recognised the rule of law in the Republic of Korea, as well as the independence of the judiciary.

Second, Mr Burton's article questioned the special legislation under which the trial of the ex-presidents was held. The legislation wes enacted by the National Assembly as the ex-presidents' slush funds surfaced. It became all too obvious that the case had to be brought to justice if the nation is to make progress and develop further. The legislation reflected an overwhelming national consensus.

Therefore, this special legislation is essentially different from what is known simply as a retroactive legislation.

Third, the article, referring to the unfortunate ends of his predecessors, said in effect that Mr Kim must worry about his fate after his term expires. Mr Kim, the first popularly elected president of a civilian administration in the Republic of Korea, has implemented a policy of change and reform, curing the "Korean disease" (the symptoms of which included corrupt and irregular practices), and righting the wrongs of history. His accomplishments have been widely acclaimed botb at home and abroad.

Any possible concern about his fate after the end of his presidential term is baseless.

Finally Mr Burton wrote that there are allegations concerning financial irregularities involving President Kim's son, Mr Kim Hyun-chul. The article referred to rumours which are completely groundless.

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Trade-off should be price for backing US

From Mr Michael Johnson.

Sir, The letter from Willy de Clercq (September 16) about the impact of the Helms-Burton Act on world trade and on America's allies was as cogent as it was restrained. It causes one to wonder whether the UK government had the wit to demand some retreat by the US from this iniquitous law before going out on a limb with its unqualified support for the attacks by the US on Iraq.

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Dinosaurs get hungry

US banks are fighting for a slice of the Internet payments business, says John Authers

US banks have seen nimbler financial services groups run off with several parts of their core businesses in recent years.

Many customers who used to have high-interest cheque accounts have switched to the money-market funds offered by mutual fund managers, many of which offer cheque facilities. And the lucrative business processing credit-card transactions and electronic payment data has been scooped up by data-processing companies such as GE Capital and EDS.

But last week a powerful consortium of 15 banks launched a counter-attack against the latest threat to their business – the arrival of the Internet as a medium for making payments. With software companies hoping to win a share of the growing market for such transactions, the banks announced the creation of Integrion, a new system for handling online commerce grandly described as a "financial services superhighway".

For the past two years software companies have made all the running in providing "home banking" allowing customers to make financial transactions through their personal computers. In the process they have encroached on core banking functions, such as paying bills and transferring funds between accounts.

Intuit, a Californian software house, controls about 80 per cent of the home-banking market, giving it a long lead over Integrion. Its Quicken programme is already offered to customers by 37 banks, including Wells Fargo.

It also developed a bill-payment and processing system to work with its software – a potentially worrying development for the banks which see this as part of their core business. In what was seen as an attempt to soothe such fears, Intuit earlier this week announced it had sold its bill-payment subsidiary to CheckFree, a company which already handles payments for banks.

But Microsoft, the world'e largest software company, is also challenging the banks for the transactions business. Earlier this year it launched proposals for a common standard for transactions software that would work with its Windows operating system.

More frightening for the banks was Microsoft's decision to develop a complete system for bill-paying and transactions with Visa International, the credit-card company. Mr Bill Gates, chairman of Microsoft, attacked the banks as "dinosaurs" – driving the banks to sit down with their rivals to negotiate an alliance.

The 15 banks in the consortium have roughly half the household accounts in the US and Canada. "We are trying to hold on to our customers," says Mr Hugh McColl, president of Nations-Bank, the fourth largest in the US. "The real battle", he says, is for control of the electronic transactions infrastructure. He adds: "Microsoft says they want to control that. If Microsoft controls it, that makes commodities out of all banks."

The consortium includes International Business Machines, the world's largest compnter manufacturer which has so far failed to establish a bridgehead in Internet commerce. At the moment such transactions generate revenues that are scarcely significant – total online commerce this year will be $700m (£450m), according to Mr Lou Gerstner, IBM chief executive. Visa and Mastercard process payments to that valne every 70 minutes, he adds.

But with 48m US households expected to own PCs and modems by the end of the decade, the Internet has the potential to become the dominant medium for financial transactions.

"We expect the number of US home-banking users to grow 75 per cent annually until the year 2000," says Mr Deogo Teixeira of the Tower Group, a consultancy which analyses the home-banking business. "To handle this demand, US commercial banks may be forced to grow their home-banking expenditures to over $1bn by the year 2000."

By forming a joint venture, the banks – each of which has invested "several million dollars" – will benefit from economies of scale. But most important, they will keep control of the transaction process itself, with the network receiving a fee for each deal made on it.

They will also be able to brand their own products. Customers dialling in to Integrion will feel they are dealing with their own bank, not an anonymous computer services enterprise.

The banks believe this will allow them to exploit their main advantage, which is customer loyalty. Mr Gillespie claims they are already using their "high level of trust" to win back customers, helped by legal changes which allow them to offer a wider range of products and build up branch networks.

"If we are dinosaurs, I would suggest that today we are putting our customers on notice that it is a new breed that is evolving," says Mr Bob Gillespie, chief executive of KeyCorp, anotber consortium member, "one that intends to be led by a voracious appetite for building market share."

Integrion will publish open standards for the software which wlll be compatible with existing programmes from Intuit and Microsoft. The consortium hopes this will encourage smaller companies to write compatible programs. And to encourage banks, new consortlum members will pay the same price for Integrion's services as the founders.

But the most critical issue is security. The banks know they must convince their customers that thair bank records will be protected.

Integrion's answer ie to offer users the option of using IBM's private network for their transactions. But eeveral large banks have decided to stay out of the consortium because of the security issue. They include Chase Manhattan, which recently merged with Chemical Bank, Wells Fargo and Citicorp, the largest US retail bank.

The latter has been offering online personal computer banking since 1984. "We're monitoring it, but we aren't at the point where we're prepared to offer our customers transactions over the Internet," Citicorp says. "We need to make sure there are means to make them secure, and make sure our customers are comfortable."

Mr Gerstner, who is promoting IBM's private network, voices the fears many have about the Internet. He says: "It's like talking on a party line. But it's bardly a network you can feel good about doing secure financial transactions on."

Only if the banks can convince their customers that their system is safe will they be able to retain control over transactions that move into cyberspace.

Customers dialling in to Integrion will feel they are dealing with their own bank, not an anonymous computer services enterprise

FINANCIAL TIMES

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Lynch law for directors

There is something about California's love of the Proposition – better known to the rest of the world as a referendum – to chill the non-Californian heart. However bizarre the proposal, it may still pass into law. And given California's position as one of the world's biggest and most innovative economies, its ideas may prove influential elsewhere.

Proposition 211 is a splendid example. In essence, it aims to give investors the right to sue executives personally if the share price falls sharply. Investors would not be required to show that they were misled by executives' statements on the company's prospects, or were even aware of them. Companies would be banned from indemnifying executives against lawsuits.

Naturally enough, the proposal has caused near-panic in California's high-tech board rooms. The shares of companies in such high-growth industries as biotechnology or the Internet are naturally volatile. Often enough, they will fall abruptly and subsequently recover. This need not be a reflection on the companies themselves: it simply means that investors find it hard to assign a value to companies with growth rates outside the normal range.

The reaction of professional investors to the proposal is neatly encapsulated by Monday's hung vote from Calpers, the Californian pension fund which – again, characteristically – is one of biggest investing institutions in the world. On the one hand, no pension fund – especially in the militant public sector, as Calpers is – wants to pass up the chance of more shareholder power. On the other, Calpers does not want to see high-growth companies driven out of its back yard.

In political terms, the proposition has a slightly tangled history. In essence, it aims to reverse at the state level last year's Federal measure, the Private Securities Litigation Reform Act, which barred frivolous claims by investors. The Act was vetoed by President Clinton as withdrawing protection from the tyro investor, and his veto was then overruled by Congress. Now, to make the situation still murkier, the president has expressed opposition to Proposition 211.

The shift to the state level on such a fundamental matter is undesirable. In general, federal legislation in the US is subject to such intense lobbying from all sides that the outcome tends to be even-handed. Californian propositions, such as last year's against illegal immigrants and the forthcoming one against affirmative action, are often nothing of the kind. If you are operating in California, watch your back.

Loyalty for sale

British consumers' wallets are becoming fatter by the month; not with cash, but with loyalty cards from big stores.

The success of these schemes was attested yesterday by the first-half results from Tesco, the UK supermarket chain which launched its Clubcard in February 1995. Its profits were well ahead of last year, and its market share increased a percentage point to 14 per cent. This is comfortably ahead of its rival, J. Sainsbury which – like most big retailers – has followed Tesco's lead.

The advantage of being first in such a competition are more obvious than the benefits of joining later. When all stores reward fidelity, consumers can afford to be promiscuous, armed with a portfolio of cards for any shop that takes their fancy.

As happened when every retailer was trying to outbid its rival with inflated offers of Green Shield stamps, consumers may eventually become bored with "free" offers and return to shops which concentrate on providing service and value for money.

For retailers, however, loyalty cards have several advantages over stamps. They can be linked to distinctive bonuses and money-saving offers, in addition to a standard discount (which is 1 per cent in most cases). They can also provide the store with valuable data about the purchasing patterns of named customers.

Provided that shoppers like the benefits and do not object to a system which records every bar of chocolate and bottle of gin they purchase, no great harm will be done.

However there is a danger that, despite the safeguards of the Data Protection Act, this mass of information on consumers' habits could leak across the networks into unscrupulous hands. Issues of civil liberty would be raised if, for example, insurance companies could use the data to identify people whose purchases indicated an unhealthy lifestyle; or if the police could draw up a list of suspects by monitoring the purchase of specific items or unusual consumption patterns.

A more obvious anxiety is that the stores' competitive energies will be diverted into ever more flamboyant prizes and special offers, thus diverting consumers' attention from what matters most in the long run, quality and price.

It would be churlish to poop the party just as 20m shoppers are getting into the swing of their free holidays and moneyback vouchers. Even so, it is worth remembering that no economic law guarantees that computer power, which has brought such huge benefits to retailing, will always be used in the consumers' best interests.

IGC timing

The latest ideas on EU foreign policy floated by Chancellor Helmut Kohl's Christian Democratic Union are a reminder that the Union is, nearly six months into the intergovernmental conference (IGC), from reaching consensus on revision of the Maastricht treaty.

It had been suggested that consensus was within reach because Germany, the main proponent of a new leap forward towards political union, had lowered its expectations and would now be content with a minimal pump-priming exercise. That is true in that Germany no longer expects significantly increased powers for the European parliament; but the CDU paper shows that some influential Germans are still determined to integrate the union's common foreign and security policy (CFSP) more closely with the supranational community machinery, notably by giving a leading role to the Commission.

That would make sense, since the main levers which the EU has for influencing outsiders are trade and aid, already within the Commission's competence. But it is strongly opposed by the UK and France, which both insist that foreign policy remain strictly intergovernmental. France favours a separate CFSP secretariat headed by a politician. Britain seems willing to accept this so long as the Commission is kept out of it and decisions continue to be taken by unanimous vote.

The lack of progress is frustrating, not least for the candidate members which have been told negotiations with them cannot start until six months after the IGC finishes. But hitherto it has been accepted that no deal can be struck until after the UK general election, now almost certain to be held next spring.

The French, for reasons explained on the opposite page, are now questioning this, and have bullied the Irish presidency into calling a special summit early next month to try and speed things up.

France has concluded, rightly, that a Labour government in London would not have very different European policies from the present one. It hopes to finesse the problem by a "flexibility" clause, allowing some member states to go ahead with integration in areas for which others are not ready. The UK accepts that in principle but, as Mr Malcolm Rifkind will warn today in Zurich, it will still make difficulties if the clause looks like being used to discriminate against opters-out. Also, a newly elected British government, of whichever party, will have more freedom of manoeuvre than one in the throes of an election campaign. If the UK's partners try to confront London with a take-it-or-leave-it deal before the election, they risk pushing both parties into a rigid response, which the winner will then have to treat as part of its electoral mandate.

A present of democracy

By pretending its guarantees to Hong Kong will outlast its departure the UK hopes to avoid a stain on its record, says Philip Stephens

In Hong Kong they are checking off the days. Next to the Museum of Revolutionary History in Beijing's Tiananmen Square a vast digital clock provides a more precise countdown of the hours, minutes, and seconds before Britain's last significant colony is returned to China. There will be no great cataclysm at midnight on June 30 1997. Yet it is pointless to pretend that life in Hong Kong can go on as before.

With 284 days remaining, the mood in this extraordinary city-state mixes apprehension, resignation and forced optimism. Realism, pragmatism, accommodation. These are the terms uttered most frequently as business leaders, civil servants and, with a handful of exceptions, politicians contemplate Chinese sovereignty.

For Britain, the handover will mark the final retreat from empire, the last act in a 50-year break with its colonial past. For China it will draw a line under the "Jin" period of history, 150 years of humiliation which began with the opium wars of the 1840s. For Hong Kong it is a voyage into a perilous unknown.

History obliges Britain to give back the last jewel in the crown of a lost empire. But it does not provide an escape route from the moral dilemma. Its past custom has been to bequeath democratic government before departing from its colonies. If they later fell into anarchy, Britain could say it had done its best. Never before has it ceded sovereignty to a declared enemy of democracy.

As Chris Patten, the last governor, puts it with studied understatement: "Anyone who does not understand that there are certain moral anxieties in this enterprise seems to me to have a pretty strange notion of political values." At the eleventh hour he has sought to reinforce Hong Kong's flimsy constitutional framework. His modest steps towards democracy have drawn fierce denunciation from Beijing and scorn from sinologists in Whitehall.

It is easy to see why. Elsewhere a curious charade is being played out, a game of illusions and delusions in which all sides find common cause in insisting nothing much will change when Mr Patten finally boards the royal yacht Britannia in Hong Kong's Victoria harbour.

Britain wants to avoid a final stain on its – by and large creditable – record of colonial disengagement. Thus it must pretend its guarantees to the people of Hong Kong will long outlast its departure. China sees the handover as a precursor for the eventual return of Taiwan. That demands a certain respect for the letter, if not the spirit, of its obligations. And Hong Kong needs the confidence of international investors.

Scratch below the surface, though, and a different picture emerges. At Beijing's discretion, Hong Kong will retain some of the freedoms granted in the final decades of British rule. Most likely it will enjoy a degree of autonomy much envied by China's other powerful provincial governors. But to imagine it will be governed as in the past is to defy the logic of the transfer of sovereignty. It is to pretend that the values of a distant, usually beneficent, colonial administration are shared by a totalitarian regime wedded to the theory if not the practice of communism.

It was not supposed to be like this. The terms of the transfer of sovereignty were set out in 1984, when Margaret Thatcher and Deng Xiaoping negotiated the Joint Declaration. This unique international treaty was designed to safeguard Hong Kong's capitalist system and its political freedoms for at least 50 years. One of Mrs Thatcher's closest advisers declared at the time that it was "as good as independence". The comment, empty then, seems downright insulting now. In 1988 her administration decided Hong Kong did not need democracy. It later eschewed confrontation when the Basic Law for the territory clearly breached the intent of the earlier accord.

Ms Emily Lau, then a journalist and now a legislator, had a different perspective on the 1984 agreement. It would, she said, "deliver over 5m people into the hands of a communist dictatorship". It was a blunt way of putting it. But, save that the population has risen since by 1m or so, the observation retains its essential truth.

Mr Patten's limited democracy, greater transparency in government and increased spending on public welfare represent a modest attempt to make amends. They are intended to convey to the middle and working classes the worth of political freedom. But, *pace* the sinapologists, history is most likely to conclude this attempt to add some dignity to Britain's departure was too little too late.

Lest all this sound too gloomy, it is indeed only part of the story. Hong Kong still takes one's breath away. The steel-and-glass skyscrapers which climb the slopes of the Peak at crazy angles, the serried rows of million-dollar yachts in the harbour, the queues outside the Gucci store. All are reminders that per capita, this is one of the world's richest nations. There are other, less visible, measures of success. Life expectancy is second only to that in Japan, child mortality rates below those of Germany.

These refugees from China's past upheavals – the civil war, the great leap forward, the cultural revolution – have built an extraordinary enterprise. Lest Beijing think their aspirations can be too easily brushed aside, some 600,000 have taken out an insurance policy in the form of an overseas passport.

There are other reasons for China to tread carefully. The most oft-cited is economic self-interest. Hong Kong will account for more than 20 per cent of China's national income. Its financial reserves are the seventh largest in the world, its stock market the eighth largest. Preferential treatment on world markets demands Hong Kong retains a fair measure of autonomy.

It is also true that the institutional framework agreed in 1984 cannot be dismantled without some cost. The principle of one country with two systems acknowledges that prosperity depends on the rule of law, political pluralism and an independent bureaucracy. Senior civil servants – Anson Chan, the chief secretary, and Donald Tsang, the financial secretary, among them – will remain only for so long as the promises are honoured.

Nor is China's a monolithic regime. Power at the centre has been dispersed by the struggle for the succession to Mr Deng, economic liberalisation and the shift in the balance of power towards its maritime regions. Reformists like Qiao Shi, number three in the Beijing heirarchy, see Hong Kong's potential to give new impetus to change within China. Lu Ping, the most senior official concerned with Hong Kong affairs, has recently taken to offering public reassurance. There have been overtures to members of the Democratic party to join the appointed body that will replace Mr Patten's elected assembly.

Mr Lu has said that, on the governor's departure, he will shake the hand of a man vilified by Beijing as a "criminal through the ages". There is a pretence also of a contest to choose a new chief executive. The apparent choice, though, between Tung Chee-hwa, the shipping magnate, and Sir Ti Liang Yang, the chief justice, is academic. Whoever is selected will owe their first loyalty to Beijing.

And here we come to the basic point. No legal agreement can suppress the essential instincts of the Beijing regime. Its ideology may no longer owe much to Karl Marx, but its embrace of market economics has done nothing to dilute its anthoritarianism. Its power is arbitrary, dependent on rule by law rather than the rule of law. The most powerful figure in Hong Kong after the handover will not be the chief executive but the ranking member of the Chinese Communist party. Institutions may be preserved even as they are hollowed out.

This is a point grasped by Ms Lau and by Martin Lee, the Democratic party leader. A light touch is not within the experience of the Chinese leadership. Hong Kong will retain autonomy only if it fights for it. Its people will be joined by Mr Patten in fighting the dismembering of the elected assembly. But elsewhere they have found few allies.

Among the territory's Chinese billionaires the talk is that rule from Beijing will bring as many opportunities as risks. They have already shifted their production to the factories across the border in the Shenzhen special economic zone. They have massive property developments in Beijing and Shanghai. These tycoons have little time for philosophical arguments about democracy.

Of course, there must be some safeguards. The endemic corruption and cronyism in China must not be allowed to poison the well of international investment in Hong Kong. But in the teak-lined boardrooms there are reminders also that, if the playing field for business is now level, it was not always so. The British taipans had their own, convenient definitions of business integrity. The newspapers too, are genuflecting to the new realities. Mr Lu's recent comment that attacks on the China's national integrity will be prohibited hardly raised a murmur.

So one country is already proving stronger than two systems. Optimists will tell you that Hong Kong may be the catalyst for dramatic change in China itself. The present political regime in Beijing cannot withstand the pace of economic change. Maybe. Others ask what is there to worry about as long as Hong Kong remains the best place to do business in China. Fair enough. But let us not kid ourselves that nothing will change.

· OBSERVER ·

Master of the Universe

■ Goldman Sachs prefers its [illegible] to keep their heads down while they make money. But no one seems to have told [illegible] back in the spotlight with his move to head up the investment bank's Asian [illegible] [illegible] Goldman's top [illegible] in London, [illegible] role in building [illegible] forward [illegible] puts [illegible] of [illegible] fattens up [illegible] running to [illegible] within [illegible] are [illegible] at 42, [illegible] sanctum [illegible] is [illegible] pushy [illegible] for [illegible] has his [illegible] endeared [illegible] away at [illegible] unlikely [illegible]

New York in 1979, later building up its merger business out of London. Last year he took on executive responsibilities for the bank across Europe. Perhaps one of his biggest challenges will be tending his outside board interests, all of which he says he's keeping. He's already chairman of revitalised fashion chain Laura Ashley, Ford Motor, broadcasters BSkyB, and Pacific Century, the Hong Kong property company. How will he fit them in from Tokyo and Singapore? One colleague suggests: "He's simply going to be everywhere and anywhere."

Must read

■ "Everyone should have one," says Cambridge University Press of its latest title, a somewhat intimidating if timely tome exploring everything you should know about derivatives. Martin Baxter and Andrew Rennie, authors of *Financial Calculus*, claim the work is indispensable; so much so that they have just posted one off to Singapore's Changi jail marked for the attention of one Nick Leeson in the hope he'll find the time to read it.

For art's sake

■ Banque Commercial Privée, formerly part of the bankrupt Pallas Stern group based in Paris, has decided on a "reorientation of its banking activity" under its new owners, the Maaf insurance group. Hence it is launching a sale of some of its prize assets at the end of this month, valued at between FFr28m and FFr34m.

So what are these assets? Not tools normally considered seminal to the banker's trade, seeing that they include 100 sculptures, pieces of historic furniture and paintings by artists such as Pissarro, Gauguin, Modigliani, Warhol and De Kooning.

Euro lure

■ Jacques Chirac's recent message about France seeing Poland in the European Union by around the year 2000 met a frosty reception in Brussels, where officials promptly added a couple of years to what they saw as a typically Gallic – and therefore over-optimistic – timetable.

But the notion seems to have gone down well enough with Baron Alexandre Lamfalussy, the president of the European Monetary Institute, who this week visited Warsaw to explain to the Poles the inner workings of the euro and what they need to do to sign up.

Actually, with a budget deficit of under 3 per cent of GDP and the public debt at below the 60 per cent mark, Poland rises towards the top of the class of possible Emu candidates. Inflation at just under 20 per cent is more of a sticking point.

But central bank independence, another Emu condition, is music to the ears of Hanna Gronkiewicz Waltz. Poland's central bank governor is constantly having to fend off the former communists from the ruling coalition who attempt to circumscribe her movements.

Indeed she beamed delightedly yesterday when she heard Lamfalussy insisting on central bank independence and thus equipping her with a powerful euro-argument with which to belt her opponents.

Political ass

■ Brazilian police in the North-Western town of Pilar are investigating the suspicious death of Frederico the goat. This is no mere crime of passion – politics are involved. For not only was Frederico standing for mayor in Pilar, he was well ahead in the opinion polls. Owner Petrucio Maia set the goat on the campaign trail as a protest candidate and thinks he was poisoned by political rivals because he "had a lot of foam in his mouth".

The poor beast would have gone far.

The Financial Times

100 years ago

Peace and Low Prices
An article entitled Peace and Low Prices that appeared in a recent number of the Chicago "Economist" ought, we think, to be brought to the notice of the Peace Society. Our contemporary declares, in epigrammatic language, that "War has its horrors on the battlefield, but peace has its penalties on the Bourse," and remarks that the world is paying the penalty of long-continued peace by a protracted and disastrous decline in prices. This cold-blooded reasoning is backed up by way of illustration by the statement that wheat has sometimes shot up by ten cents on the Chicago Board of Trade on the mere suggestion of a possibility of a European war.

50 years ago

Sao Paulo Railway
It was confirmed officially yesterday that the British-owned Sao Paulo Railway has been taken over by the Brazilian Government. The hope that fuller details would be available was not fulfilled. Senhor Neves da Fontoura, Brazilian Foreign Minister, who is on a visit to London, is reported to have said: "The Sao Paulo Railway concession is at an end – it finished Saturday."

FINANCIAL TIMES
Wednesday September 18 1996

China warns Australia over Dalai Lama visit

By Tony Walker in Beijing

China yesterday threatened trade retaliation against Australia over plans by Mr John Howard, the Australian prime minister, to meet the Dalai Lama, Tibet's exiled spiritual leader.

It is believed to be the first time that Beijing has said it would use trade as a weapon to punish foreign governments which receive the Dalai Lama, who is accused by the Chinese of seeking to split Tibet from China.

Mr Shen Guofang, the foreign ministry spokesman, said such a meeting would "unavoidably have an unfavourable influence on economic and trade relations."

He added: "Countries, including Australia and New Zealand, should be clear-minded about the Dalai Lama who deceives international opinion and the leaders of some countries."

The Dalai Lama met Mr Jim Bolger, New Zealand's prime minister, last week before travelling to Australia for e two-week stay. He was received in Sydney on his arrival last Saturday by Mr Alexander Downer, the foreign minister.

Mr Howard said during a visit to Jakarta that he planned to meet the Dalai Lama in spite of strong Chinese protests. "We have a proper reputation as a country of religious and political tolerance and in that context the meeting between us, if it can be arranged, will take place," he said.

Beijing is sensitive about what it regards as the Dalai Lama's attempts to promote Tibetan independence, and has become concerned about separatist movements in its frontier regions.

Beijing has not specified what action it might take, but the Australian New Zealand (ANZ) bank is concerned that its efforts to secure e licence to open e branch in Beijing may be affected. ANZ has been given tentative approval.

China delayed approval for Allianz, the German insurance group, to secure an operating licence in protest over the reception given to the Dalai Lama in Germany earlier this year. At meetings with Mr Downer last month, both premier Li Peng and vice premier Zhu Rongji alluded to the Allianz example.

An Australian official in Beijing said China may not take immediate action, but he warned trade was "an area of vulnerability for us."

"What they might do remains ambiguous. It may be they won't do anything. The Chinese might leave it hanging," he said.

China is assuming increasing importance as a trading partner for Australia. In 1995, China became Australia's sixth largest trading partner - the 7th largest destination for Australian exports and fifth largest source of Australian imports.

After July 1 1997 when Hong Kong is reunified with China, China will become Australia's third largest trading partner behind Japan and the US.

Czech bank offered support package

By Vincent Boland in Prague

The Czech central bank stepped in yesterday to prevent a liquidity crisis at the country's biggest privately-owned bank as reverberations from the collapse of another bank last month spread through the financial sector.

Mr Josef Tosovsky, Czech National Bank governor, said he had asked other commercial banks to make Kc 6bn ($226m) available to Agrobanka, the country's fifth largest bank, if there was a run on its deposits.

Leading banks have refused to extend normal interbank lending facilities to Agrobanka in recent days because of possible problems arising from its links with Kreditni Banka, which collapsed with gross losses put at Kc 12bn.

Agrobanka is controlled by shareholders allied to Motoinvest, e fund management and banking group at the centre of a police investigation into the Kreditni affair.

Mr David Knop-Kostka, a senior executive at Motoinvest, is under arrest charged with embezzlement and harming the interests of creditors in relation to the collapse of Kreditni. He is e member of the supervisory board of Agrobanka.

Three former Kreditni executives and a second Motoinvest executive are also in detention in relation to the collapse. Mr Pavel Tykac, general director of Motoinvest, left the Czech Republic on Monday.

Motoinvest acquired control of Agrobanka late last year. The central bank admitted yesterday that it is not entirely sure who the ultimate owners are because of the opaque nature of its shareholding structure and the secrecy of Motoinvest's operations.

The move to support Agrobanka followed a crisis meeting of the cabinet and the CNB's banking board that discussed the widening impact of the Kreditni failure.

A special commission comprising the finance, interior and justice ministers is also investigating the reasons for Kreditni's collapse.

Concern at rash of attacks by hackers on Internet sites

By Louise Kehoe in San Francisco

A rash of hacker attacks on commercial Internet sites – including one in which the services of Panix, a New York-based Internet access provider, were seriously disrupted – has raised new concerns about the security and reliability of the worldwide computer network.

In these "denial of service" attacks, hackers have flooded Internet sites with false requests for information sent from fake addresses, tying up the computers and preventing access by legitimate users.

In addition to the Panix attack, at least one large information technology company, which declined to be identified, has suffered a similar attack.

Attacks have been "isolated incidents", said Mr Pete Solvik, vice-president of information systems et Cisco Systems, the leading manufacturer of routing equipment for the Internet. The company, however, is concerned that ths problem could spread, disrupting Internet service for millions of users and effectively closing down large commercial sites on the Internet.

With many banks and retailers now planning Internet services, the potential for financial losses as a result of such attacks is rising. Disruption of Internet service can also be e serious problem for the tens of thousands of businesses that now rely on electronic mail and sites on the World Wide Web to communicate with their partners and customers.

The impact of a large-scale "denial-of-service attack" can be devastating, said Mr Solvik. Within a minute, e computer linked to the Internet can be completely overwhelmed and it may take days before service can be restored.

Mr Alexis Rosen, president and co-owner of Public Access Networks, e private company that operates the Panix network, said hackers attacked several computers on his network, preventing subscribers from retrieving electronic mail, reaching the Panix Web site and reaching Internet news groups over five days. The attacks stopped last week.

Because the attacks came from fake addresses on the Internet, it was "impossible to trace the source without a major effort on the part of all Internet service providers between Panix and the attacking party", said Mr Rosen.

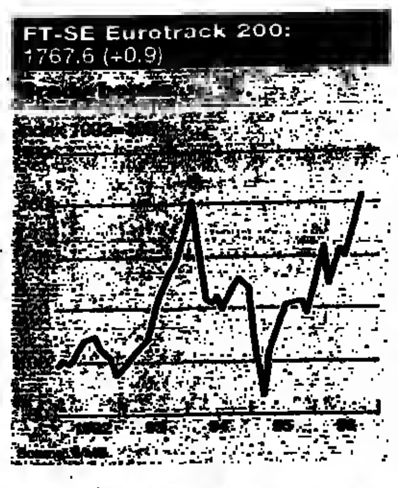
"The nature of the Internet, which is designed to let machines communicate with a minimum exchange of identifying information, makes every site on the Internet vulnerable," said Mr Rosen.

The Federal Bureau of Investigation's New York Computer Investigations Threat Assessment Center is understood to be investigating the attack on Panix. Computer Emergency Response Teams, a US organisation that collates information about security and technical problems on the Internet, are looking into the incident.

Dinosaurs get hungry, Page 14
Skills warning, Page 10

THE LEX COLUMN

Calling Germany



With two months to go until flotation, Deutsche Telekom is starting to make eyes at investors. Yesterday the group announced it will pay a DM1.5bn ($993m) dividend for 1996, despite the fact that first-half profits have been almost wiped out by a series of one-off restructuring and tax charges. That would imply e 2 per cent yield on the DM75bn which most analysts think the company's equity is worth – a reasonably high payout by German standards. And the yield should rise nicely over the next few years. In 1997 the dividend could double to DM3bn as one-offs disappear and profits bounce back to DM7bn or more. Thereafter, rapid cost and debt reductions – with net borrowings of DM98bn Telekom is effectively e huge leveraged buy-out – will fuel earnings growth, allowing further increases in the payout.

This scenario might appeal to domestic German investors. But it is unlikely to cut as much ice with international institutions at a time when British Telecommunications, Tele Danmark and Holland's KPN are yielding 5-6 per cent. Moreover, there are more telecom privatisations to come, all of which will try to lure investors with juicy dividends of their own.

Nor are institutions blinded by yield. As far as growth is concerned, Telekom offers fast, though slowing, expansion in eastern Germany and strong market positions in mobile phones and high-speed ISDN lines. But it has yet to knit together its array of international investments and face real competition at home.

Brady bonds

After years of labouring under the stigma of "restructured debt", there is a grave danger of Brady bonds acquiring an image of respectability. An index of prices on these bonds – issued since 1990 in exchange for distressed commercial bank debt, mostly in Latin America – has rallied by about 6 per cent this month alone, and nearly 25 per cent since January. The previously unthinkable – some Brady bonds trading on narrower spreads than similar Eurobond issues – has now arrived.

Improved sentiment is the product of an inflow of new money, with increasingly mainstream investors attracted partly by mouth-watering yield differentials. But these have always been available; indeed, they are much smaller now than in the past. The difference lies in the hard-earned policy credibility Brady issuers have acquired as well as the stability the market has shown. Healthy profits in US bond and stock markets have helped, encouraging investors to take more risk in emerging markets. Diminished supply has also played e role; Mexico and the Philippines have swapped Brady bonds for lower yielding Eurobonds, and others are rumoured to be following.

The pull-back in prices yesterday is not surprising; the precipitats rise of recent weeks could not continue. But short of the unforeseen, or the US Federal Reserve raising rates, current prices look sustainable. The whiff of volatility and excitement, which to the chagrin of market veterans has largely disappeared, is unlikely to return.

P&O

If the reputation of P&O's chairman Lord Sterling were an investment, now would be a pretty good time to buy. The first step to rehabilitation was last week's container shipping deal with Nedlloyd – an undoubted coup which put some badly needed fizz into P&O's share price. The next step will be to top this – as Lord Sterling plainly intends – with a channel ferry alliance. Yesterday's North Sea deal should only be an appetiser. In the channel itself, much more savage rationalisation is needed.

Assume this is on the cards and P&O's prospects are looking up. Helped by healthier property markets as well as the deals, earnings growth should be sprightly. Yet the shares are still trading at a slight discount to next year's market average price/earnings multiple. This looks unduly cautious.

But nagging questions remain. Once the current restructuring is over, P&O will still be a ragbag of dislocated businesses, including stakes in semi-independent ferry and container joint ventures and a hefty chunk of property. Of course, investors will rightly care more about the company's performance than whether it fits some abstract business school model. Nonetheless, as current cash pressures recede P&O will almost certainly want to start spending money again. And given its record, investors will need convincing that their cash will be spent wisely. So as well as sorting out P&O's headaches, Lord Sterling has another big task ahead of him: to articulate convincingly where he thinks the company is heading.

Tesco

Tesco's performance is hard to fault. Over the past three years it has successfully boosted volumes by cutting prices, through schemes like its loyalty card and the "Unbeatable Value" campaign. While suppliers have shared the pain on margins, Tesco's superior sales growth has gained it market share, putting pressure on J. Sainsbury and other rivals.

But while this strategy has brought Tesco soms competitive advantage it is rapidly commoditising the industry. With customers now used to lower prices, it is hard to see the supermarkets reclaiming their lost margins. Worse, the food retailers are still merrily flinging around vast amounts of capital. Two years ago, Tesco forecast capital spending of £450m for the current year. It will actually spend £770m, more than twice depreciation and three times the level et Marks and Spencer, which serves a bigger market. And although Tesco says the 15 per cent everage return from new stores is above its 11 per cent cost of capital, this is not the whole story: building new supermarkets has the effect of reducing the value of existing ones.

As long as food retailers continue to spend at this rate, rapidly rising dividends and share buy-backs remain a distant prospect. This is in stark contrast to much of UK industry, which is generating more and more spare cash. Small wonder the sector has been such a poor stock market performer.

Lex comment on Sears, Page 22

Paris and Bonn make pledge to meet Emu deadline

Continued from Page 1

to be "truly effective" and designed to have e continuing impact once Emu hed been establisbed. He also insisted that the Maastricht criteria, which will determine which countries can join Emu, should continue once the single currency was operating.

An economic and monetary union based on principles of stability could lead to lower interest rates, Mr Tietmeyer said.

In e warning to governments not to dilute the criteria, Mr Tietmeyer said they "must be applied correctly and precisely". He said France and Germany had agreed the need to "meet the criteria fully without any window-dressing operation".

However, hs acknowledged tbat the criteria – which include the 3 per cent limit on government deficits and e limit of 60 per cent of GDP for total government debt – were subject to interpretation. It would be the task of the European Monetary Institute, the forerunner of the planned Europsan central bank, to elaborate on this before the end of this year.

Mr Tietmeyer said he hoped the Dublin meeting would result in broad agreement on a plan to regulate relations between Emu members and countries outside the group.

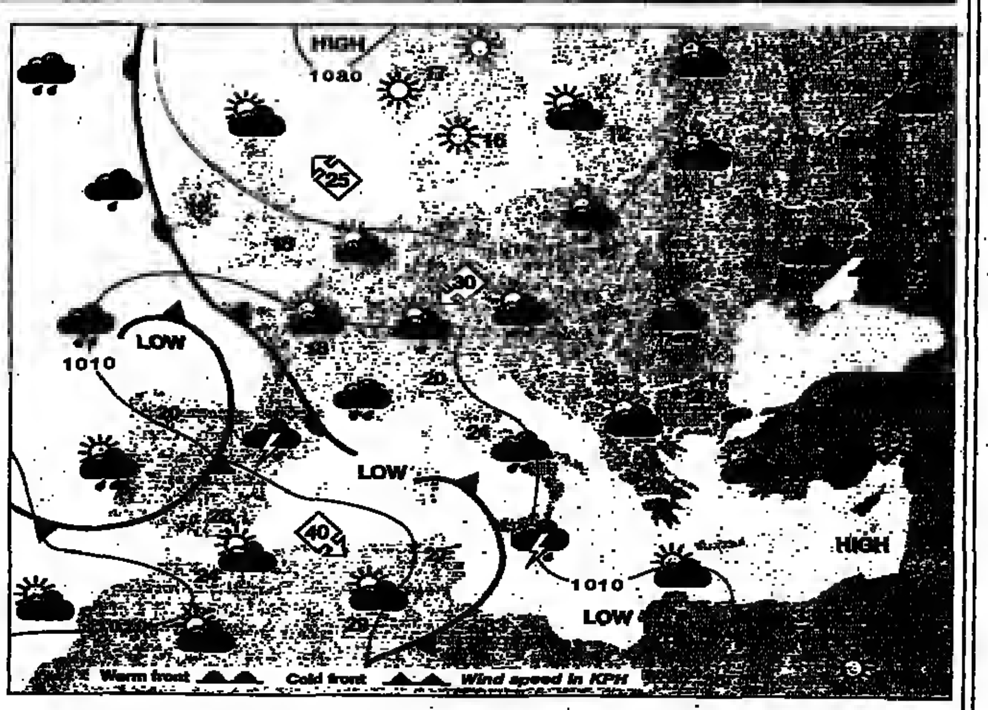
FT WEATHER GUIDE

Europe today

High pressure over western Norway will bring sunshine to most of Scandinavia but Finland will be partly cloudy. Most of the British Isles will have sunny periods. The Benelux, Germany and northern France will have sunny spells. The Mediterranean will have some rain. Spain and Portugal will be mainly cloudy with thunder showers likely near the east coast. Showers will occur in Italy and Sicily will have thunder showers. Showers are also likely in Switzerland and Austria. Sunny periods are expected over the Balkans, Greece and Turkey.

Five-day forecast

Western Europe will be changeable with sunny periods and showers. High pressure will bring fair weather to Scandinavia. A low pressure area will cross Spain and northern France reaching Italy and the Balkans during the weekend. Abundant rain will fall near the track of the low.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	sun 27	Caracas	thund 33	Faro	shower 25	Madrid	cloudy 22	Rangoon	rain 30
		Belfast	fair 18	Cardiff	fair 20	Frankfurt	fair 15	Majorca	thund 24	Reykjavik	shower 13
Abu Dhabi	sun 39	Belgrade	fair 17	Casablanca	fair 24	Geneva	shower 19	Malta	thund 27	Rio	thund 26
Accra	fair 28	Berlin	fair 15	Chicago	sun 22	Gibraltar	shower 24	Manchester	fair 19	Rome	shower 24
Algiers	fair 25	Bermuda	fair 30	Cologne	fair 18	Glasgow	fair 17	Manila	thund 33	S. Frsco	sun 27
Amsterdam	fair 18	Bogota	cloudy 19	Dakar	fair 31	Hamburg	fair 16	Melbourne	rain 21	Seoul	sun 29
Athens	fair 26	Bombay	shower 32	Dallas	fair 32	Helsinki	fair 14	Mexico City	fair 24	Singapore	cloudy 32
Atlanta	sun 26	Brussels	fair 16	Delhi	sun 30	Hong Kong	fair 32	Miami	fair 33	Stockholm	fair 18
B. Aires	fair 21	Budapest	shower 12	Dubai	sun 38	Honolulu	shower 32	Milan	shower 20	Strasbourg	fair 17
B.ham	fair 19	C.hagen	fair 16	Dublin	fair 16	Istanbul	sun 22	Montreal	rain 17	Sydney	sun 24
Bangkok	thund 34	Cairo	sun 34	Dubrovnik	fair 20	Jakarta	fair 33	Moscow	fair 10	Tangier	shower 24
Barcelona	thund 22	Cape Town	cloudy 15	Edinburgh	fair 19	Jersey	fair 18	Munich	fair 14	Tel Aviv	fair 30
						Karachi	fair 32	Nairobi	fair 27	Tokyo	cloudy 25
						Kuwait	sun 43	Naples	shower 23	Toronto	fair 17
						L. Angeles	sun 28	Nassau	thund 32	Vancouver	shower 19
						Las Palmas	sun 27	New York	shower 19	Venice	shower 18
						Lima	cloudy 19	Nice	thund 21	Vienna	shower 12
						Lisbon	shower 22	Nicosia	sun 31	Warsaw	shower 12
						London	fair 20	Oslo	sun 17	Washington	cloudy 23
						Lux.bourg	fair 15	Paris	sun 18	Wellington	shower 15
						Lyon	shower 18	Perth	shower 18	Winnipeg	fair 20
						Madeira	fair 26	Prague	shower 12	Zurich	fair 14

مكتفى من الأصل

FINANCIAL TIMES **SURVEY** Wednesday September 18 1996

THE PHILIPPINES

Manila chalks up several tiger stripes

There's a lot of good news, but with only two years left of his term, President Ramos is under pressure over the last stages of his reform programme, writes Edward Luce

Like passengers at the proverbial London bus-stop waiting hours before a whole fleet comes along, the Philippine government has recently had an unexpected crop of good news.

With a 7.1 per cent rise in gross national product in the first half of 1996, economic growth could finally be on course to reach Asian Tiger rates, say economists. The signing on September 2 of a permanent peace settlement to end the bloody 24-year civil war with the country's 5m Moslems has been hailed as proof that political stability has been achieved. And foreign investment, led by Japanese and Taiwanese electronics companies, is at last spilling over into robust manufacturing growth.

There is so much good news, in fact, that it is easy to forget that just six months ago observers were beginning to question the sustainability of the country's economic turnaround. A series of natural disasters at the end of last year almost bludgeoned the agricultural sector into negative growth and threatened – via higher food prices – to push inflation, which had surged to 11.8 per cent in the last quarter, into an upward spiral this year.

Political squabbling in congress, triggered by the split of the ruling Lakas-Laban coalition into opposing forces at the beginning of 1996, and a series of wildcat strikes against fuel price deregulation, raised fears that the national consensus behind economic reform was fragmenting. Indeed at one stage, when almost every government bill seemed to be submerging into a quagmire of congressional bickering, some thought President Fidel Ramos had become a lame duck.

But time, and, of course, events have conspired to swing the emotional pendulum back. With the exception of the crucial tax reform bill, much of the contested legislation, including oil deregulation, has entered the statute books. Inflation, meanwhile, has fallen below double digits and is expected to drop to about 6 per cent by December. Even the agricultural sector, which has long been a drag on the Philippine economy, has rebounded with 6.6 per cent growth in the second quarter of 1996.

Against this backdrop which, in the words of one businessman, shows "all the good economic indicators pointing up and all the bad ones pointing down", it would be tempting to view the problems earlier this year as a pothole on the road to Asian Tigerhood. Judging by the country's mercurial past, however, only the foolhardy would predict the latest mood swing will last. Plenty could still go wrong.

For a start, the tax bill, which is considered the single most important fiscal reform in the country's recent history, could still be picked to pieces by hostile forces in congress.

Important elements of the legislation, which is already several months behind schedule, have been successfully opposed by powerful interests led by Lucio Tan, the country's foremost Chinese-Filipino businessman and chairman of Philippine Airlines.

The publicity-shy Mr Tan, whose array of business assets also include the Allied Banking Corp and Asia Brewery, the country's second largest beer company, successfully lobbied against a clause which would have abolished the ad valorem tax on "sin" products.

His enemies, including the government tax department, accuse him of fiddling the ad valorem tax system by shifting production costs to "ghost" marketing arms. Government lawyers allege Mr Tan has avoided 26bn pesos (US$1bn) in taxes through this deception. Under the compromised version passed last week, the ad valorem tax will be retained side by side with the excise taxes on beer and tobacco originally proposed by the government.

The setback to the government augurs badly for its proposals to simplify the personal and corporate income tax system which congress will debate later this month. The government wants to narrow the nine-tiered tax system down to three bands and broaden the tax base. The IMF has urged the Ramos administration to push the tax package through this year.

Second, the Philippines is not immune to the general downturn affecting exports across east Asia. With export growth of 18 per cent in the first seven months of 1996, the Philippines is still ahead of the pack but below the 30 per cent increase in export receipts it registered in 1995.

A further drop in the global price of electronics, which make up 40 per cent of total Philippine exports, could eat into the country's performance in the latter half of the year. On the other side of the coin, the Philippines' coconut and primary commodities sector appears to be recovering from the contraction of 1995.

But a sharp drop in overall exports, which have been outpaced by import growth of 24 per cent this year, would lead to a widening of the current account deficit. At 2.5 per cent of GNP, it is still within acceptable bounds, thanks to remittances from the country's 4m-strong overseas workforce.

Last month Cielito Habito, cabinet minister for planning, earned himself a rebuke from the central bank for suggesting it should engineer a depreciation of the Philippine peso, which he said had appreciated by 10 per cent in real terms over the last 12 months and thus constrained exports. Not unreasonably, the central bank pointed out it had almost doubled its foreign exchange reserves to over US$11bn since January in an effort to prevent the currency from appreciating further. Any attempt to push it in the other direction, said central bankers, would be swiftly negated by the continuing surge of capital inflows. The argument is likely to intensify in the coming months.

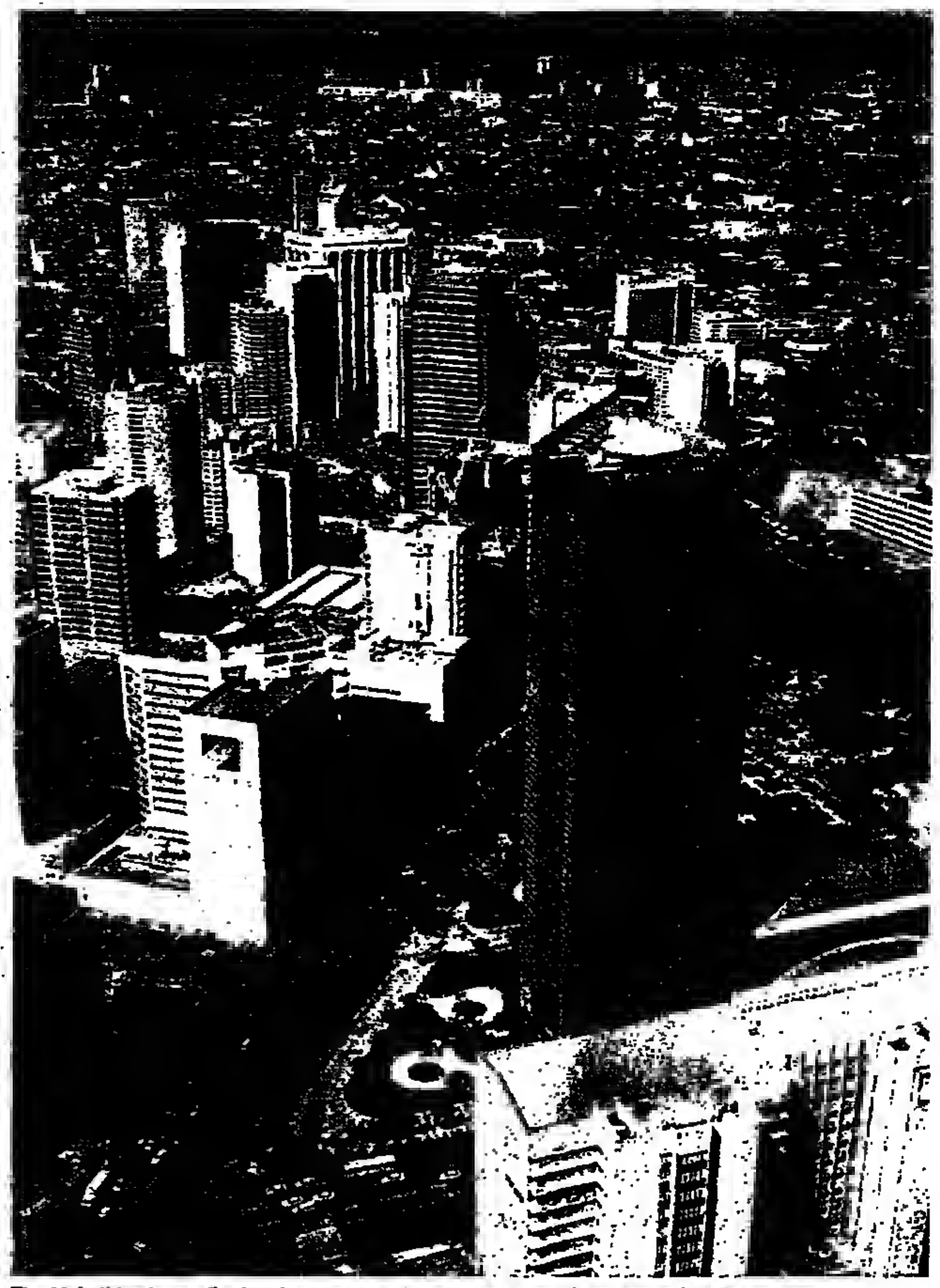
Nevertheless, for an economy which only a few years ago was heavily reliant on primary commodity exports and large scale foreign borrowing, the controversy is comfortingly reminiscent of debates in more developed economies like Thailand and Malaysia. With debt service costs down to about 13 per cent of export revenues and agricultural growth easily outpaced by growth in services and industry, the Philippines is starting to resemble its more prosperous Asian neighbours.

Like Thailand, or for that matter, Indonesia, rapid economic growth is pushing the country into infrastructure bottlenecks, most noticeably in transport, public hygiene and water services. Similarly, the rapid emergence of a Philippine middle class – bringing in its wake the obligatory property and consumer spending boom – has left a large and impoverished underclass to stew in political obscurity. The gaping failure of the much-touted "trickle-down" effect (35 per cent of Filipinos remain below the absolute poverty line) and president Fidel Ramos's inability to deliver on his promise to shift spending from traditional items to better health and education for the poorest, has compounded this divide.

Again, the problem is common to other south-east Asian countries and has, to a certain extent, been amplified by the Philippines' recent economic successes. Unless, however, there is a more concerted effort to alleviate the extremes of inequality, the country will continue to be racked by the scourges of mass labour migration, tuberculosis, sex tourism and the spectre of wide scale social unrest.

With less than two years to go before the May 1998 elections, Mr Ramos is acutely aware of these pressures. The key question is whether he has the power or the political will to confront them in the time which remains.

The first of the president's 1992 election pledges to restore political stability and end the country's chronic power shortages within his first two years of office was faithfully delivered. The second pledge, to put the economy on track for Newly Industrialised Country status with a programme of sweeping deregulation and privatisation, has probably been achieved. The last, to focus aggressively in the final two years of the administration on the reduction of poverty, corruption and bureaucracy, is still before him. Only time will tell whether it was the throw-away line of a politician on the bustings or a sincere pledge to fight for justice in a strikingly unequal society.



The Makati business district clusters around the towering stock exchange building Picture: Anne Counsell

IN THIS SURVEY

Editorial production: Heather Parker
Graphics: Bob Hutchison and Mark Boland

■ Politics: by Edward Luce

Unlikely peace pact seems set to hold

Hard-line opponents of the deal have been sidelined

The September 2 peace agreement between the government and the Moro National Liberation Front (MNLF), the country's largest Moslem separatist group, was something many thought tbey would never see. The conflict, which in its most recent phase since 1972, claimed over 100,000 livss, has bedevilled the southern Philippines since Spain colonised the country in the 16th century.

Indeed, the word Moro, which applies to the country's 5m Moslem minority, is simply a corruption of the Spanish word for "moor". Bridging the gulf between the region's Christian and Moslem leaders, was a feat few believed President Fidel Ramoe would accomplish. But war fatigue and the Malacanang Palace's unstinting hunt for political accommodation meant a return to full-scale war was unlikely.

The outcome - a three-year autonomous council covering 14 provinces to be replaced by a permanent autonomous structure after a plebiscite in 1999 - is an agreement which will be underpinned by the support of the Philippines' closest neighbours, including Indonesia. The significance of Jakarta's involvement, underlined by the presence of Ali Alatas, Indonesia's foreign minister, at the signing ceremony, was not lost on Manila's elite.

"Indonesia's encouragement of the MNLF to reach a peaceful settlement was crucial to the success of the talks," said Julius Caesar Parrenas, professor of politics at the University of Asia and the Pacific, in Manila. "As a country with more separatist conflicts than any other in the region it was not going to allow an unfortunate precedent to be established next door."

The promise of Indonesian and Malaysian investment in Mindanao, the Philippines' southernmost island, and the knowledge tbat hoth Christian and Moslem hard-line opponents of tbe deal are politically sidelined, explains the widespread confidence that the deal will stick. Equally important, it gives substance to the country's claim to have achieved genuine political stability.

This claim – backed up hy the demise of the country's other long-term insurgency, the communist rehellion, which is barely a shadow of its former self – is now generally accepted by foreign investors. The recent turmoil in Jakarta and security problems across the Taiwan straits have highlighted the Philippines' relative stability compared both to its own past and the travails of some of its neighbours.

Nevertheless, the outcome of the 1998 presidential elections features with growing prominence in the calculations of overseas investors. Few believe the momentum of economic reforms set in train by Mr Ramos could actually be reversed. But a populist candidate, elected perhaps by an electorate dissatisfied with the growing inequality of wealth distribution or backed by vested business interests, could, at least, check the pace of the economic reform process.

The formal split in the senate earlier this year of the Laban party from the ruling Lakas-Laban ruling coalition was taken by many as the first shot in a long presidential campaign. Led by Senator Edgardo Angara, previously a supporter of the government's liberal economic agenda, the hreakaway group had already called itself the "senate conscience hloc".

In a U-turn characteristic of the fluid party system, politicians such as Gloria Macapagal, a presidential hopeful for 1998, awitched from support to opposition to the key economic reforms including oil price deregulation, expanded value added tax and liberalisation of trade in agriculture.

Confusingly labelled "pro-poor", the group set about undermining policies designed to help the less well-off by tahling exemptions to expanded VAT on real estate transactions, electronic goods and other luxury products. Although it failed to prevent oil price deregulation, the group also described its stance on oil as "pro-poor" even though the measures would have led to a reduction in kerosene prices for the poor.

The debate, conducted in an emotional atmosphere and fuelled, at times it seemed, by a campaign of disinformation in many of the country's leading newspapers, was an unsettling foretaste of what could be in store in the 1998 presidential elections. "It should not be forgotten tbat the Philippines lacks a proper party system," said a leading foreign investor. "The scope for naked political opportunism here is very wide."

The focus on 1998 is somewhat clouded by the fact that supporters of Mr Ramos are involved in a signature campaign to hold a referendum to abolish constitutional term limits or to simply extend the president's term. If successful – the petition has raised 1.7m out of the required 3m signatures to hold a plebiscite – Mr Ramos could yet opt to run in 1998 despite the controversy it would generate.

President Fidel Ramos Picture: Fernando Sepe/AP

Presidentiel aides say Mr Ramos has not yet made up his mind but would probably take the gamble if the constitutional amendment had gained enough support by mid-1997.

Congressmen, of whom a third must stand down in 1998, not to mention the dozens of provincial governors and mayors facing compulsory retirement, have sent mixed signals. The amendment, which would be bitterly opposed by Cory Aquino, the former president who drew up the constitution in 1987, and the catholic church, would be held up by some as a return to the days of President Ferdinand Marcos, who suspended the constitution in 1972 to perpetuate his hold on power.

Snpporters of Mr Ramos are apparently contemplating one of two options. The first, to alter the constitution to allow Mr Ramos to stand for a second six-year term is the most plausible. The second, to extend the presidential term to 2000 without holding an election is also under consideration. Ironically, the latter, which would be justified by the need for the administration to complete the "unfinished business" of its reform programme, would almost certainly tarnish its solid record on political stability.

■ Foreign affairs: by Edward Luce

Pragmatism governs thinking in Manila

Geography rules as Asean and Apec are used to defuse military, economic threats

At the Apec (Asia Pacific Economic Co-operation) leaders' summit in Manila in November, the regional spotlight will focus, temporarily, on the Philippines.

Cynics will dismiss the one-day leaders' meeting – preceded by seven days of ministerial and senior officials talks – as little more than a photo-opportunity. For the Philippine government, however, the summit is viewed as a chance to broadcast the country's growing respectability to the wider region. In addition to this rare public relations opportunity, it sees the Apec trade liberalisation process as key to the country's future security.

Since the US was summarily ejected from its Philippine naval and air force bases by a senate vote in 1991, the country has felt acutely vulnerable to outside pressures. The discovery last year of Chinese naval installations on a portion of the disputed Spratly Islands, 130 nautical miles off the Philippine coastline, heightened this sense of exposure.

A subsequent wave of Chinese "rogue" naval incursions into Philippine waters helped stoke unease about China's military reach and strident rhetoric. Manila's mutual defence treaty with the US does little to counter these fears.

The arrival of Chinese President Jiang Zemin and 16 other heads of state in Manila in November will be an opportunity to intensify the dialogue with Beijing and to push China's integration with the wider region. Manila believes it is as much a strategic as an economic goal to eliminate trade barriers within Apec by 2010 for developed members and 2020 for developing countries.

"China is now on the road to becoming an economic as well as a military superpower," said Domingo Siazon, Philippine secretary of state for foreign affairs. "Our main concern is how China will behave in the future. We believe that Apec provides the solution by giving China the economic space to grow within a framework which will diminish the possibility of open conflict."

As a supporter of China's application to join the World Trade Organisation in Geneva, the Philippines is also playing a pragmatic game with Beijing. The refusal last month to issue visas to a delegation of Tibetan activists invited to speak at a human rights conference in Manila was taken as evidence of a desire to avoid provoking Beijing before the Apec meeting.

Talks with China on the Spratlys have also led to an easing of tensions. The two countries agreed to resolve the dispute without force. China's membership of Asean (Association of South-east Asian Nations) is also construed as an opportunity to engage Beijing.

Through the Asean regional forum and other less institutional channels, south-east Asia has spoken to China with one voice on the Spratlys. The other claimants – Malaysia, Vietnam, Brunei and Taiwan – all signed the 1992 "Manila declaration" which pledged to avoid conflict over the potentially oil-rich islands.

China's membership of Apec and the regional forum is also considered a vital conduit to promote 'civilised dialogue between the US and Beijing and to ensure Washington remains committed to the region. "If the US withdrew militarily from Asia, Japan would feel pressured to develop its own nuclear weapons," said Mr Siazon. "This would lead to a nuclear arms race in the region. It is vital, therefore, that the US remains fully engaged in Asia and the Pacific."

The development of closer trade and economic ties at the sub-regional level within the seven-member Asean group is also an essential part of what Philippine officials call the broader Asian "template". Manila's informal proposal earlier this year to unilaterally extend Asean's tariff reduction programme to Apec on a "most favoured nation" basis has so far made little progress.

The initiative, which would extend to the region as a whole Asean's goal of reaching 0-5 per cent common tariff rate by 2004, would – if accepted – be presented as a bold gesture at the summit in November. But the Philippines, which, unlike Malaysia, has consistently backed the concept of "open regionalism" in Apec, is attempting to keep the issue alive at meetings with its counterparts.

"In Asean and indeed Apec, we do things slightly differently to other trade groups," said Melito Salazar, Philippine undersecretary for trade and industry. "We float proposals behind the scenes and if they meet with a good response, we move it up to the formal level. There is still plenty of time to talk about this initiative before November."

As part of Manila's contribution to Asean's obsession with "consensus", the Philippine government surprised many of its domestic supporters when it uncritically accepted Burma's application to join Asean earlier this year. In a vague nod towards the Philippines' democratic principles, Burma was persuaded to issue a joint statement expressing general support for "democratisation". Beyond that, however, no conditions were attached to Burma's accession.

"First and foremost, Asean is a geographical family of nations, and the differences between our political systems do not alter that fact," said Mr Siazon. "But we believe that by directly growing together and helping each other to develop, we will encourage the establishment of democracy in the region."

Economy: by Edward Luce

Manila has learnt its IMF lesson well

The outlook is tigerish as key indicators line up with IMF forecasts

With just nine months to go before the Philippines graduates from what it hopes will be its final International Monetary Fund programme, almost all the key macroeconomic indicators are in tune with IMF forecasts. The programme, a three-year US$684m credit assistance facility which, in the event, has been left untouched, was designed to help rid the country of its tendency to behave like a child in a candy store whenever growth rates took off.

Like those with a sweet tooth, the country has learnt its lesson the hard way. Over-consumption, fuelled by overseas borrowing and higher government spending during the 1970s and 1980s, was followed by indigestion and negative growth rates the next year.

A repetitive "boom-bust" cycle worked its way into the national psyche, and became a difficult habit to kick.

Several hard years of often painful reform, however, appear to have given the Philippine economy a more abstemious character, less prone to over-indulgence. Just one example is the composition of imports: ten years ago the country paid for imported foreign consumer products with imported dollars.

By 1996, consumer goods had plummeted to less than 10 per cent of the country's import bill. The remaining 90 per cent or so is accounted for by raw materials, capital equipment and half-finished goods for the country's growing export and manufacturing base.

With export growth of 30 per cent in 1995 and 18 per cent in 1996, the country no longer relies heavily on overseas debt to fund economic expansion and domestic consumption. As a percentage of export receipts, debt servicing costs have dropped from a high of about 40 per cent in the late 1980s to 13 per cent in 1996. Total foreign debt has plummeted from 120 per cent of GNP to 51 per cent this year.

In 1997 the Philippines is projected to register its fourth budget surplus in a row.

Large problems, of course, remain, not least the need to push through a comprehensive tax reform bill if the budget is not to swing back into deficit as revenues from privatisation dry up.

However – as the surge of foreign direct investment over the last 18 months eloquently demonstrates – the overall picture has radically changed. With 7.1 per cent gross national product growth in the first half of 1996, up from 5.8 per cent in 1995 and 5.2 per cent in 1994, economists believe the Philippines is inching its way towards Asian Tiger growth rates.

"If I was coaxed to gaze into my crystal ball, I might well argue that the Philippines has the potential to outperform its neighbours," says David Nellor, IMF representative in Manila. "There is little doubt now that recent growth is more than just a cyclical upswing."

What, therefore, could possibly stand in the way of double-digit growth rates?

Like any reformed binger, there is always a danger the Philippines might stealthily revert to old habits. This could happen in a number of ways, the most plausible of which is a return to fiscal irresponsibility.

With privatisation proceeds diminishing rapidly, the country urgently needs to put a broader and more transparent tax system in place.

Failure to enact the tax reform bill in acceptable form – the capacity of the Philippine congress to shoot the economy in the foot should not be underestimated – would quickly push the national budget into the red. This would eliminate the badly-needed scope to boost spending on health, education, infrastructure and other areas vital to the country's future competitiveness.

It would also, inevitably, mean a return to higher government borrowing, which would push domestic interest rates up and private sector investment down. The growth of domestic savings, up from 14 per cent of GNP in 1993 to around 20 per cent this year, would almost certainly come to a halt.

Higher domestic interest rates would also raise the cost of servicing the government's peso-denominated liabilities, 80 per cent of which are short-term. The goal of reducing government spending on interest payments – which will gobble up 25 per cent of this year's budget – to make space for more productive expenditure (such as boosting infrastructure spending from 3 per cent of GDP to the 6 per cent average in south-east Asia) would also be stymied.

"The tax bill is the last really significant economic reform left to accomplish," said Mr Berhnard Eschweiler, an economist at J P Morgan in Singapore. "It is also, however, one of the most important. Raising tax revenues is crucially important if the country wants to keep the economy on the right track."

Apart from tax there are also question marks over the country's current account balance. Contrary to popular opinion, about 70 per cent of the Philippines' estimated US$5bn remittances comes from expatriate professionals in the US rather than domestic servants toiling in the Gulf and Hong Kong. The notion that the country owes its small balance of payments surplus to the sweated earnings of its 3m overseas maids is a myth.

The spectre, however, of a widening current account deficit is not. With strong overseas worker remittances making the difference between a small current account deficit – at about 2.5 per cent of GNP – and a large one, there is always the danger that the deficit could widen. The need to maintain rapid export growth to help pay for even faster import growth is therefore paramount.

Approved investments

Sector	Project cost Peso bn	% Share
Manufacturing	32.00	40.2
Public utilities	23.33	29.3
Tourism-oriented projects	6.65	8.4
Energy related projects	4.90	6.2
Infrastructure/Industrial Service	4.62	5.8

Source: Board of Investments

Capital markets: by Edward Luce

Too many cooks

Greater clarity needed in order to encourage investments

The rapid emergence of the Philippine stock market over the past three years has not been matched by equivalent growth in the debt market. With stock market capitalisation more than quadrupling to US$70bn since 1993, and average daily turnover – two-thirds of which is foreign-driven – rising from about US$40m to US$120m in the same period, Philippine equities are clearly in demand.

The same cannot be said of peso-denominated debt. With the exception of government securities, notably the 91-day treasury bills and more recently the market for two, three and seven-year government bonds, the growth of Philippine corporate debt has been sluggish. Delays to various capital market reforms, including the introduction of a central depositary system and changes in the treatment of mutual funds, has prompted Philippine blue chips to issue overseas rather than at home.

"Over the last six months we have seen a strong rise in interest from foreign institutions in the local debt market, particularly government securities," said Mark Boyne, vice-president with responsibility for treasury and capital markets at HSBC Markets in Manila. "But a number of tax laws and regulations need to be clarified before that substantial interest can be be translated into stronger investments."

First on the list for reform is the 20 per cent witholding tax, which analysts say is badly drawn up and confusingly implemented. Under various tax treaties, the Philippines is obliged to reimburse foreign investors part of the 20 per cent tax. The central bank has yet to clarify how it will implement this. US investors, for example, are only supposed to pay 10 per cent according to a bilateral treaty.

Second, the 0.25 per cent documentary stamp tax discriminates against private sector bonds. Government bonds are already exempt from the tax. This not only tilts the market against private debt but acts against the development of a secondary debt market in private debt, say investors. "The stamp tax is imposed on just about everything that moves and it's just too high," said Roman Azanza, director of Crosby Securities in Manila.

Third, mutual funds are subject to double taxation. Pending a change in the law, foreign investors are also debarred from sitting on the board or from taking a majority share in local unit trust funds.

Most of these anomalies are due to be ironed out either by legislation or by new central bank regulations in the next six months. Some, notably simplifying the tax treatment of mutual funds, have been rolled into an omnibus tax bill which has been delayed for political reasons.

Others, such as confusion over the definition of short selling, which, according to one broker, is "viewed with great suspicion by the authorities", can be cleared up by simple fiat. "The main problem is that there are too many cooks spoiling the broth," said Benjo Arcinas, president of the money markets council. "The SEC, the central bank and congress are all supposed to draw up regulations. As a result no-one seems to have taken a lead."

This confusion is also behind the delay to the setting up of a central depositary system and a central clearing house, both of which were supposed to be in place by mid-1996 or earlier. Wrangling between the Philippine central depositary, the Philippine stock exchange and the central bank over the terms and conditions of the fund have pushed the timetable back until December.

Once it is in place, however, brokers say it will have a salutary effect. Large foreign institutions, for example, are debarred from investing in markets without a central depositary system. Others are deterred by Manila's lengthy settlement process. "The central depositary will reduce settlement time on non-equity securities from 27 days to 4 days," said Mr Azanza. "This will dramatically curtail systemic risk in Philippine debt."

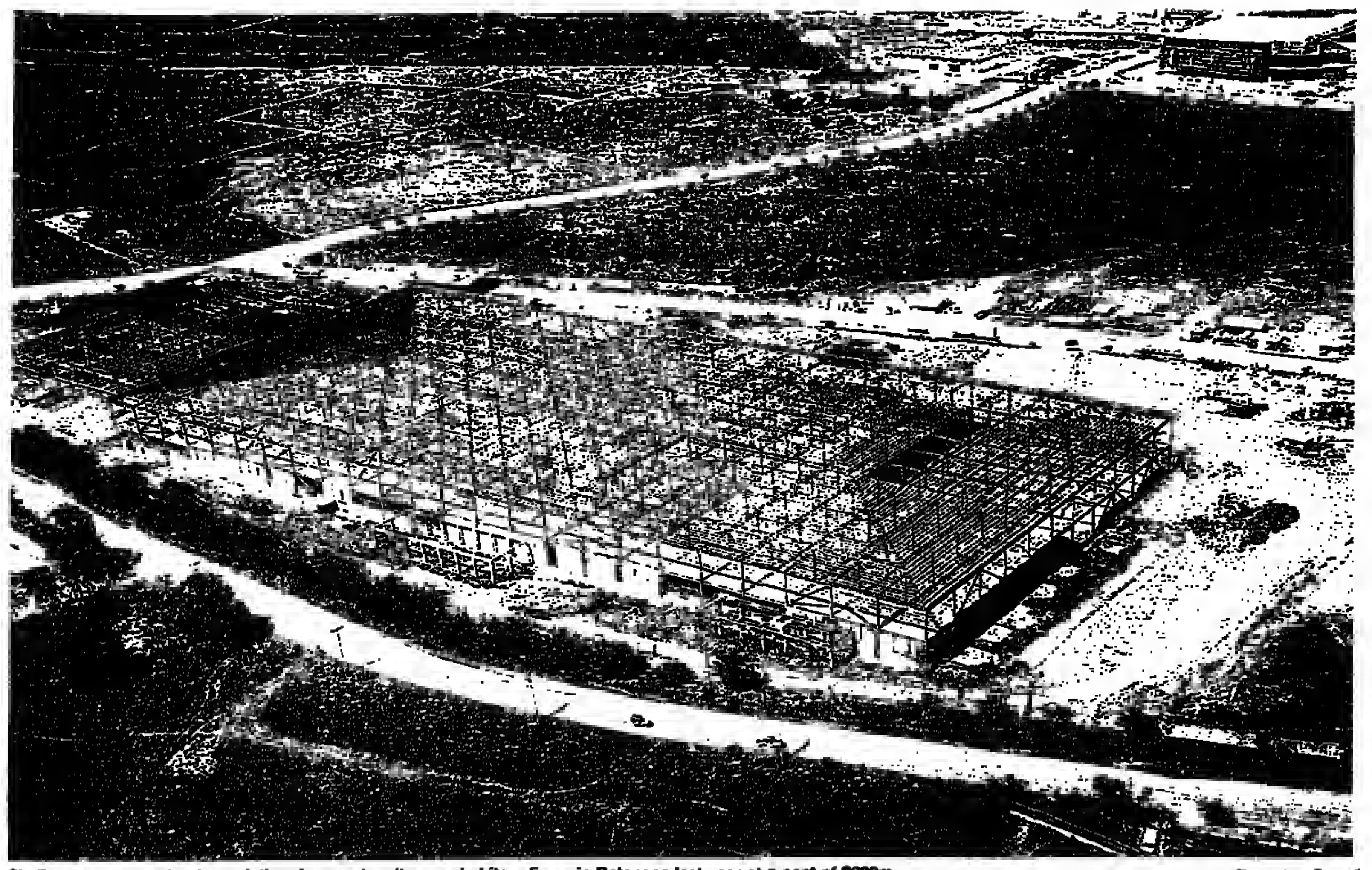
The frustration over the slow evolution of the peso debt market stands in marked contrast to the reception given to Philippine corporate debt overseas, especially in the Euro-debt and Yankee bond markets. In the three years since the National Power Corporation (Napocor) led the country's return to the overseas debt market, more than a dozen Philippine companies have followed suit.

Some, such as the Philippine Long Distance Telephone Company, which has issued US$750m in seven and ten-year bonds, have returned up to three times. PLDT's Euro-debt is trading at about 260 basis points over Libor. Ayala Land and SM Prime, two of the country's leading real estate companies, are trading at less than 210 basis points over US treasuries on their three year floating rate notes.

Several Philippine banks, including Metrobank, which will later this month issue the country's first five-year FRCD in Europe in a US$100m offering, have expressed frustration at the costs of issuing shorter-term debt in pesos. Nevertheless, it is hoped the government's initiative earlier this month to retire as much as US$1.9bn in Brady debt (re-scheduled debt linked to US treasuries) and replace it with uncollateralised 15-year maturity and 20-year fixed rate Euro-bonds, will set a benchmark for longer-dated Philippine corporate debt overseas.

"Philippine corporate debt is now well recognised and well received in Europe and elsewhere," said Richard Luddington, head of J P Morgan's emerging debt syndicate in London. "On a comparative basis, most Philippine issues are trading towards the quality end of Indonesian corporate debt, and at much tighter rates than equivalent Mexican issues for example."


Traders on the Makati Stock Exchange Picture: David Hayes


Shell geared up for the deregulation drama when it upgraded its refinery in Batangas last year at a cost of $600m
Picture: Anne Counsell

■ **Electronics:** by Anne Counsell

Assembly line has ambitions

'We need to move on from selling our sweat'

The whirr of computer disc drives at the end of a production line and the buzz of round-the-clock semiconductor assembly plants have made the electronics sector the fastest growing in the Philippines economy.

From almost nowhere in the export ranking in 1992, the sector constituted around 46 per cent of all exports in 1995 with a value of $7.6bn – more than the country's entire exports in 1988. In the first six month of this year, electronics exports had risen 50 per cent compared to the same period in 1995 with sales of $4.9bn.

Electronics plants have also been the conduit for large investments by US, Taiwanese, Korean and Japanese producers of computers, computer parts and peripherals. There are now more than 300 electronics companies in the Philippines, with almost monthly announcements of further arrivals, plant upgrades or joint ventures in the sector.

While electronics have been an important component of the country's impressive growth figures, they may also prove to be one of the sectors on which the tiger "cub" economy cuts its teeth as the Philippines strives to develop its industrial base and move up the technological ladder.

"We need to move on from selling our sweat," as Francis Ferrer, president of the Semiconductor Electronics Industry Foundation, puts it. Around 80 per cent of the components for the electronics sector are imported, and the Philippines is largely an efficient "assembly line", with the products shipped for export after comparatively low value-added input of between 15 and 30 per cent.

Mr Ferrer would like to see the industry moving up to more specialised, higher levels of technology, with more research and development, making the transition from a low-wage assembly operation to one producing and developing advanced technology. This, coupled with the utilisation of more local components, could lift the value-added component to around 40 per cent, he says.

There are signs this shift has already begun. Earlier this year, Intel of the US invested $350m in flash memory production and the expansion of a Pentium chip testing plant, one of three in the world where it assembles and tests chips before shipment. Texas Instruments, based at the government-owned Baguio City Export Processing Zone, plans a $100m expansion, part of which will be a modern facility to test its chips used in cellular phones, hard disc drives and notebook computers.

There is also a growing list of companies sending locally-hired staff abroad for specialised training in electronics and engineering. In addition, the country has been experiencing a "brain gain" as qualified and experienced Filipinos, who have been working abroad, return to take up senior posts in the country's expanding electronics sector.

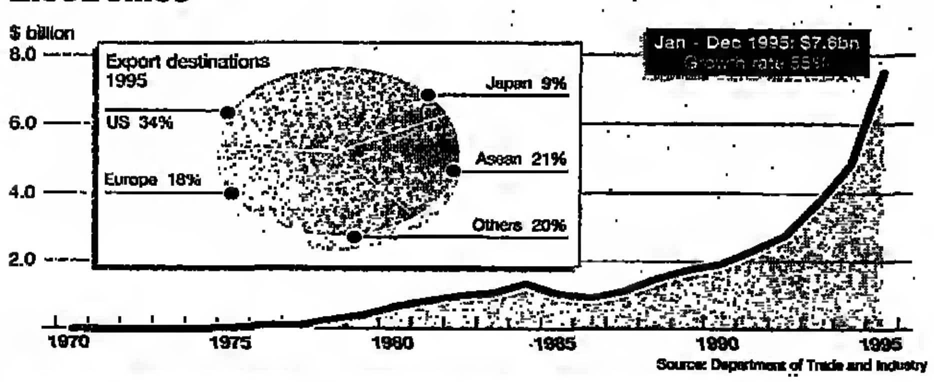
There is also fairly serious talk about the possibility of the Philippines having its own wafer fabrication plant to produce the thin pieces of silicon from which chips are cut. The going rate for wafer plants is more than $1bn, requiring a large and strategic investment. There have been expressions of interest by local companies exploring the possibility of bringing in investors and strategic partners.

A keen advocate of a wafer plant is Gateway Electronics Corporation, which has its own semiconductor packaging plant in Cavite, 25km south of Manila, where it has established a successful privately-owned industrial estate for electronics manufacturers. The Gateway Business Park, which qualifies as a designated "special zone" for exports, has attracted nine big high-tech investors, including Intel with its Pentium assembly and testing operations, Cypress, Asahi-Pentax, Analog Devices and Hitachi. Together they have pledged investments of over $1.6bn, or about 60 per cent of the semiconductor investments in the Philippines in 1995.

When complete, the park will accommodate about 20 electronic, microelectronic and support companies. Andrew de los Reyes, the president of Gateway Property Holdings, says the business park is well positioned to capitalise on the global demand for chip assembly and packaging. Gateway itself has established a 51,000 sq m plant for semiconductor assembly and testing, and plans to expand into board assembly and testing facilities.

Companies are broadly optimistic that the Philippines semicondnctor and consumer electronics sectors will continue to grow, although the pace may slacken off due a regional slowdown in demand and the large inventories held by electronic companies worldwide. The Philippines, however, has been cushioned from the regional downtrend in the electronics sector due to its broad export profile – over one third of electronics exports (34 per cent) are destined for the US, 18 per cent to European markets, 21 per cent to other Asean countries, 9 per cent to Japan and 20 per cent to other markets.

Electronics



Source: Department of Trade and Industry

■ **Oil sector:** by Anne Counsell

Deregulation hurts as it kicks in

Demand is high and rising, but competition gets fiercer

There were howls of protest from Jeepney and taxi drivers when the price of petrol was increased by 50 centavos a litre in mid-August, marking the start of the much delayed automatic pricing mechanism (APM) and the transition towards deregulation of the Philippines oil sector.

The political sensitivity around freeing prices in a nation accustomed to cheap petrol had caused the most reform-minded in government to baulk, resulting in several aborted attempts last year to raise prices and a slippage in the oil liberalisation timetable.

Full deregulation has now been scheduled for March 1, 1997, following implementation of the APM, under which domestic pump prices are set using an average of Singapore Posted Prices (SPP) over 30 days.

Further price rises during the transition phase have been capped at 50 centavos a litre, with any excess to be absorbed through the Oil Price Stabilisation Fund (OPSF), a government buffer mechanism designed to even out fluctuations in domestic prices due to international oil price changes and the peso's exchange rate.

"We will not be shedding any tears in March," said Mr Monico Jacob, chairman of Petron Corporation, the privatised Philippine national oil company with a dominant 41.8 per cent share of the market. "The costs (of the fund), have been enormous. Deregulation will bring greater benefits to consumers through increased competition, which we welcome." Petron, which forecasts that demand will rise to 600,000 barrels per day (bpd) by 2005 from the present total domestic output of 392,000 bpd, is planning a new greenfield refinery with capacity of between 100,000 bpd and 200,000 bpd to meet the projected demand.

Petron also plans to develop its retail network by opening 40 petrol stations a year.

In the interim, Petron has completed a project on one crude unit which adds 10,000bpd to its former capacity of 155,000bpd. Work is under way on another crude unit to add a further 15,000bpd, bringing Petron's total refining capacity to 180,000bpd by the end of 1997.

Shell Pilipinas, the subsidiary of the Anglo-Dutch multinational, is similarly upbeat about the advent of liberalisation. Reiner Willems, chief executive of Shell companies in the Philippines, predicts a rise in imports after deregulation and the arrival of several new entrants.

Shell, which has a market share of 31 per cent, upgraded its refinery in Batangas in 1995 at a cost of $600m. The upgraded refinery was projected to run at full capacity by 2000, but spiralling demand has meant it has already hit its 155,000bpd capacity, says the refinery's general manager Tim Hake. Shell's sales rose 17 per cent in the first quarter of 1996 against the previous year and the company is boosting its retail operations with plans to open 50 new petrol stations a year on the back of high growth in car sales.

Caltex, a subsidiary of Texaco of the US, is less sanguine about prospects in the oil market post-liberalisation. The third large player in the Philippines with 27 per cent of market share,

> New arrivals could well undermine the dominant three: Shell, Caltex and Petron

Caltex has shelved plans to double capacity at its 65,000bpd refinery in Batangas. Texaco shareholders postponed a decision on the proposal, citing the narrow import duty differential between crude and refined petroleum products. Similarly, Mobil is not pursuing investment in a refinery but is focusing on retailing its lubricants and oil additives. It is investing between $50m and $70m over the next five years to establish a network of service stations, predominantly in the Manila area, where 80 per cent of its market is concentrated.

While their dominant market position may give Shell, Caltex and Petron a firm foothold in the retail sector, new arrivals could undermine their position as suppliers. The National Power Corporation (Napocor) is looking at the possibility of sourcing its fuel requirements from outside the three domestic refineries and is studying an offer from San-Francisco based Chemoil Asia to supply 500,000 barrels of fuel oil equivalent.

There is less uncertainty in the market for liquefied petroleum gas (LPG), which is rising by a healthy 15 per cent a year as households switch from kerosene, wood and coal for their heating and cooking requirements. LPG is also increasingly being used in industrial applications. To meet demand, Shell is importing refrigerated propane and butane and combining the gases under pressure at its Eastern plant and Petron is boosting output of its top selling LPG brand - Petron Gasul. A cluster of potential entrants is also eyeing the Philippines LPG market: Liquigas Philippines is contemplating a $28.5m LPG plant in Mariveles, Petronas Energy plans a $18.8m plant in Mindanao, Petroline Resources a $19.6m facility in Luzon while Seaoil Petroleum is focusing its proposal for a $56.5m plant in Metro Manila. SVH of the Netherlands and Total of France are also considering an LPG joint venture.

The outlook for natural gas, however, is clouded by pricing wrangles and uncertainty over the market for gas from the Camego-Malampaya fields, under development by a Shell Philippines Exploration and Occidental Philippines (Spex/Oxy) joint venture. As a prerequisite to developing the field and underwater pipeline, Spex/Oxy want to secure commitments for when land deliveries come on stream in 2001. The consortium is pursuing plans to convert the mothballed Bataan nuclear power plant into a 1,500MW combined cycle gas powered station, awaiting approval from the Shell parent company and a power purchase agreement with Napocor.

Spex/Oxy had hoped to supply the 1,200MW power plant at Ilijan, Batangas, where Consolidated Electric Power Asia (Cepa) is contesting the re-tendering process after its initial winning bid was disqualified. Once the contract is awarded, LNG for the plant could be supplied by imports, compelling Spex/Oxy to provide a highly competitive alternative once it had completed development of the gas field, pipeline and other facilities.

There is a similar problem with LNG supplies for First Gas Holdings (a joint venture between First Philippine Holdings and British Gas), which is to construct a 900MW gas-fired plant in Batangas, scheduled to come on stream in 1999, before the Camago gas arrives onshore. First Gas, which is also planning to develop LNG networks, has been negotiating with Petronas of Malaysia after breaking off talks with Spex/Oxy for the gas supply contract.

Although demand is high and rising in the oil, petrol and gas markets, existing competition from both domestic players and imports is fierce. The advent of liberalisation and new entrants in all sectors of the market is set to enliven what has been a highly regulated sector.

■ **Petrochemicals:** by Anne Counsell

Green light for 17 new projects

Concern persists that demand will not keep up with supply

From a low base, the petrochemicals sector is poised to leapfrog into a range of specialised production activities. Between 1991 and 1995, the Board of Investments (BOI) approved 17 petrochemical-related projects, including the production of base chemicals (ethylene and propylene) and their intermediates – polyethylene, polystyrene and polyvinyl chloride (PVC).

Industry analysts question whether there is sufficient local demand to mop up the projected output, particularly as export opportunities are limited by competition from established plants in neighbouring Asean countries. If all the proposed projects materialise, domestic production of polyethylene, the world's most common plastic, will top 420,000 tonnes a year by 1998. Domestic demand in 1995 stood at 217,000 tonnes. The picture is similar for polypropylene, a tough scratch-resistant plastic used in casings. Projected capacity for 1998 is over 400,000 tonnes, against demand of 194,000 tonnes in 1995.

Melito Salazar, undersecretary at the BOI, is confident that the ready availability of the plastics will serve to stimulate demand. "On-going growth in downstream plastics fabrication and textile industries, coupled with strong growth in the Philippine economy, will ensure markets for our petrochemicals industry," he said. The BOI forecasts demand for polyethylene will rise 9.2 per cent between 1995 and 2005, while that for polypropylene will be up 8.4 per cent in the same period.

Sumitomo of Japan, which is involved in a polyethylene venture with foreign and local partners, is even more optimistic, predicting double-digit growth in demand. Sumitomo expects the parallel development of plastic processors and fabricators in the booming car assembly and electronics sectors to provide a ready market for products from the downstream plants.

High domestic demand is essential if the cluster of proposed developments is to succeed. Philippine petrochemical exports will hit high tariff walls in the region and will have to compete against protected producers in Indonesia, Singapore and Thailand. Tariffs in the Philippines are 10 per cent, compared to 30 per cent for plastic imports in Thailand. In Indonesia, the petrochemicals industry is protected by a 20 per cent tariff and an import surcharge of the same size.

The Philippines' headlong foray into petrochemicals is centred around two complexes, both located near the existing refineries operated by Petron, Shell and Caltex, which will supply the feedstock for naphtha crackers at each site. The refineries produce a total of 400,000 tonnes of naphtha a year, well below the 1.2m tonne a year intake required by the crackers, with the shortfall to be met by imports.

One petrochemicals complex costing over $1bn is being lead-managed by the state-run energy group Philippine National Oil Company (PNOC). Located on a 550 ha site adjacent to the Petron refinery in Limay, integrated petrochemical processing will include:

● A $600m naphtha cracker with a capacity of 450,000 tonnes a year, to be financed with 40 per cent equity from PNOC, government and financial institutions. Downstream investors will utilise the vapour cracker's output of ethylene, propylene and hutylene. Loans will be sought for the remainder following completion of feasibility studies before the end of 1996. The cracker is scheduled for completion in 2000.

● A $250m polyethylene venture called Bataan Polyethylene Corporation has been set up by BP Chemicals of the UK, the Petrochemical Development Corporation (part of PNOC) and Sumitomo of Japan. The plant will have a capacity of 200,000 tonnes and will use BP Chemicals' Innovene technology. The next phase of project financing and engineering design is under way to meet a 1998 schedule to start operations.

● Petrocorp, owned by Sumitomo, BASF of Germany, PNOC, Thai Petrochemicals Industry (TPI) and local investors, is halfway through constructing a polypropylene plant at a cost of $130m. Initial output will be 160,000 tonnes a year, rising to 225,000 after three years. Scheduled for completion in 1997, the plant will use technology from BASF.

● Philippines Resins Industries (PRI) is planning to erect a $70m, 60,000 tonne-per-year PVC facility on 6.5 ha. Partners in the venture are Mabuhay Vinyl Corporation (Philippines), Bank of the Philippine Islands, and Tosoh and Mitsubishi, both of Japan.

● Itochu Corporation of Japan is considering building facilities for the production of 120,000 tonnes a year of low density polyethylene, 200,000 tonnes a year of vinyl chloride, and 400,000 tonnes a year of styrene.

A second petrochemicals complex is under development in Batangas, 140km south of Manila, where the Shell and Caltex refineries are sited. The project is being developed by J G Summit Holdings, a joint venture between Marubeni of Japan (20 per cent) and the Gokongwei Group of the Philippines (80 per cent). Work is under way on a $600m naphtha cracker with a capacity of 400,000 tonnes a year which will feed downstream plants, including a 175,000 tonnes-per-year polyethylene facility and a 180,000 tonnes-per-year polypropylene plant, both of which are scheduled for completion in late 1997. The petrochemicals venture plans to export half its polyethylene and polypropylene products. In addition, J G Summit is considering setting up production facilities to use acetic acid and synthetic rubber from the complex.

Petrochemical demand

Petrochemical	1995 Tonnes (000)	2005* Tonnes (000)	Growth %
[illegible]	[illegible]	624	8.2
PP	194	435	8.4
[illegible]	[illegible]	225	10.6
PS	38	93	9.4
[illegible]	[illegible]	[illegible]	5.4
Polyester fibres	79	106	3.0
[illegible]	[illegible]	18	4.1
Acrylic fibres	10	15	4.1
[illegible]	[illegible]	[illegible]	5.4
PBR	6	9	4.1

* Forecast
Source: Board of Investments

Investment: by Anne Counsell

Bullishness survives 6-month decline

Dip disguises 15 per cent rise in approved projects

Intel's $350m testing plant, one of three in the world, under construction at Gateway business park
Picture: Anne Counsell

A decline in foreign direct investment (FDI) figures for the first half of 1996 belies the visible manifestations of lively economic growth: a proliferation of industrial estates, rapidly rising exports, and foreign brand names on billboards and advertising hoardings.

The Board of Investments (BOI), which oversees projects eligible for incentives, registered a 46 per cent fall in the level of investments, from P146.56bn in the first six months of 1995 to P79.53 for the same period in 1996.

Special economic zones, former leaders in the investment attraction league, also fared less well this year than last. Total approved investments from new projects and expansion fell 18 per cent from P15.03bn to P12.38bn for the period. However, other investments from services enterprises, development costs of new zones and additional facilities amounting to P3.13bn were not included in tha figures. Some economists believe the reported FDI levels may be lower than the reality due to such omissions and some under-estimation in the FDI figures for build-operate-transfer projects (BOT), where the machinery is counted as an import but the equity investment is not.

The star performers were relative newcomers, the Subic Bay Metropolitan Authority and the Clark Development Corporation, where investments soared by 35 per cent and almost sevenfold (689.5 per cent) respectively, although from a low base, reflecting concerted efforts to redevelop both the former bases operated by the US military.

However, Melito Salazar, undersecretary at the BOI, is not displeased with the figures. Noting that the 1995 levels were inflated by one-off large investments in refined petroleum, petrochemicals, cement and telecommunications, Mr Salazar highlighted the increase in the number of BOI approved projects, up 15 per cent from 201 to 231 for the period, in the board's approved categories covering export projects, manufacturing industry, flagship infrastructure and service developments, energy and tourism. He said the generally favourable investment climate in the country resulted in 90 per cent of projects being realised, and expressed confidence that FDI levels would improve as the process of liberalisation continued and once uncertainties over tax reform were resolved.

The Philippine Economic Zone Authority (PEZA), an umbrella organisation for the development of four government-owned and 15 privately-owned industrial estates or "special" zones, is similarly upbeat about prospects for further investment. PEZA has plans to develop an additional 10 economic zones at a cost of P8bn to tap into the steady interest from neighbouring countries seeking investment opportunities in the Philippines.

Asian investors have been at the forefront of the investment rankings, accounting for six of the 15 largest foreign investment projects between 1991 to 1995 in the manufacturing, utilities and tourism sectors. At tha PEZA Rosario zone in Cavite, there are 58 South Korean companies producing a diverse range of manufactured goods from toys, apparel and stationery to electronics and components. Similarly, there is a notable Taiwanese presence at Subic Bay where 38 companies have expressed interest in an industrial park being financed by Taipei. Acer is the anchor Taiwanese tenant at Snbic with its motherboard assembly plant.

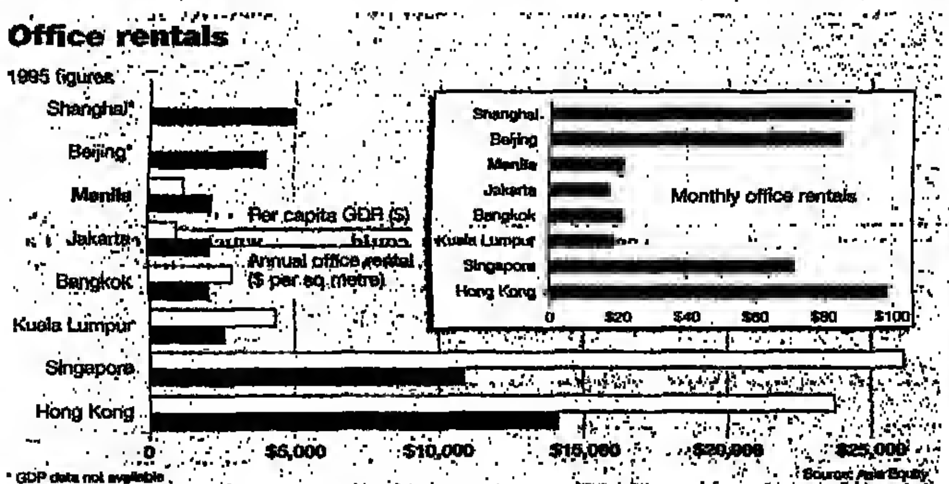
At the Laguna technopark 40km from Manila, Honda's establisbment of a car assembly plant for Accords and Civics has been a magnet for a dozen of its related components suppliers. Of the 68 companies at Laguna, half are Japanese. Initially drawn to the Philippines' special export zone because of its four-year tax holiday, no duties on imports or exports and streamlined customs procedures, the majority of companies are unequivocal abont another attraction – the country's inexpensive, English speaking and highly trainable work force. Massaki Yanagita, the managing director of Matsushita (Philippines), says the company set np operations in the country to help offset the effects of the high yen. However, the quality (30 per cent of employees at the plant are college leavers) and efficiency of the labour force was a factor in Matsushita's decision to relocate all its telecommunications manufacturing operations, apart from research and development, to tha Philippines.

Almost as widespread as investors' praise for the workforce is their criticism of the infrastructure, notably urban road systems. There is some concern that the infrastructure may not be able to cope with the continuing rate of industrialisation, making it more of a poteotial handicap than a mere frustration.

Although the country has had acclaimed success with its build-operate-transfer (BOT) programme in the energy and water sectors, noticeable improvements in tha transport sector have been less visible. "We are still chasing our tail to catch up," concedes Marc Dumal at the Ministry of Public Works and Highways. The toll-road construction programme is progressing daspite teething troubles over pricing and one operator running into financial trouble. PT Citra of Indonesia is constructing a 18km elevated toll-road in Manila, while a Malaysian group recently won a $300m contract to build a coastal expressway to the south of Manila. Negotiations are also under way with foreign and local operators for a $700m road to Subic Bay and a toll road to the industrial area of Batangas.

The government is reviewing its policy on investment incentives for priority projects as part of the ongoing tax reform bill and in response to grumbles from both economists and investors over the present system. Suggestions to scrap the menu of tax holidays and mova towards a conventional tax-based system, as in Hong Kong, are under consideration. Tax exemptions from between three and five years are only of benefit to projects generating profits from the outset, and are of no use to capital intensive ventures. Under review is a system based on accelerated depreciation and net loss carry forward (Nolco), whereby losses incurred in the first years of operation could be offset against tax on profits in the future. The government is also aiming to reduce tariff protection rates from 10 per cent to 3 per cent. "There will be enough other incentives without protection," said Mr Salazar.

Office rentals



* GDP data not available
Source: Asia Equity

PROFILE Former US bases

Battle for tourists

While Clark may lack the high profile of its sister at Subic Bay, it does have a good golf course and a better airport. These things count when the former bases, vacated by the US military in 1992, are vying for investments in tourism and leisure.

Both Subic and Clark enjoy free-port status and tax concessions, factors which have put them on the investment map for industrial, commercial and service projects. Subic got off to a head start with several high-profile deals, and has been a magnet for over 200 projects or businesses in all sectors, against 146 for Clark.

However, the Clark Development Corporation (CDC) is beginning to gain ground. In the first half of 1996, the CDC generated investments amounting to P8.08bn, against P6.62m allocated to the Subic Bay Metropolitan Authority, which operates the free port. In distribution terms, Clark drew 7.6 per cent of total investments in the Philippines compared to 8.2 per cent for Subic.

The focus is now moving towards tourism. Both have existing hotel and gambling facilities, duty-free shopping, tours and sporting activities – not enough, however, to encourage visitors to put either place at the top of their holiday destination list. Subic and Clark both have plans to build on their existing resort facilities and to develop a range of attractions including sky-diving, theme parks, entertainment complexes and sporting facilities.

Subic, with its access to the South China Sea, has an obvious advantage for water sports, a yacht club, wharf projects, sailing facilities and a marina, although less than picturesque port developments and oil storage facilities could dampen the allure.

Clark has grand plans of its own. The CDC plans to landscape the Bayanihan Park entrance to include artificial lagoons, an aviary, amphitheatre and picnic park at a cost of P40m. The aim is to provide an impressive and beckoning gateway to the facilities inside, a feature of which will be the Centennial Exposition Park, scheduled for completion next year, to host the Philippine's centennial celebration of its independence. It may happen almost a year after Subic's jamboree in hosting the Asia Pacific Economic Forum, but CDC officials believe it will help make Clark a focal point for the nation.

Clark, with its better road access from Manila and 33,600 ha of land for development against 14,000 at Subic, has the right ingredients to fulfil its investment and tourism ambitions. A key to realising its full potential, however, largely rests on a political decision over which airport facilities to upgrade first: Clark or Manila. Clark, which is already one of the largest airports in Asia with two 3.2 km runways capable of handling a Space Shuttle landing, aspires to become the country's premier airport. Philippine Airlines will begin operations from Clark next month to complement existing scheduled and charter flights by SEAir and Air Ads.

However, the Asian Emerging Dragons consortium, charged with developing the airports, is leaning towards proceeding with a approximately $400m terminal upgrade at Manila, deferring the Clark revamp until 2002. CDC officials believe this is too late and could act as a brake on the zone's continuing growth.

Anne Counsell

Property: by Anne Counsell

Boom continues

The question remains how much longer this headlong dash can continue

Now in its fourth year, the Philippine property boom shows no sign of abating. Construction sites abound in the central business districts of Makati and Ortigas, where vacancy rates are zero due to the high demand for quality office space; and land prices have doubled again over the past 12 months.

The question on everybody's lips is how much longer can this headlong dash continue? Property consultants and developers broadly agree that considerable pent-up demand, coupled with an influx of foreign companies seeking to open regional offices, will sustain upward momentum for at least the next two years, and probably up to 2000.

A recent Colliers Jardine report on regional property trends noted that the Philippines property market cycle still has room for growth due to its time lag behind markets in Thailand, South Korea, Indonesia, Malaysia and Taiwan. Separately, Richard Ellis associates highlighted the competitiveness of rents in Manila ($31/sq m a month compared to $150/sq m in Bombay, $103/sq m in Hong Kong and $467/sq m in Taipei). There is general consensus that the almost million sq m of grade A office space scheduled for completion in Makati in 1998 will be snapped up, since existing grade A office buildings provide only a woefully inadequate 372,205 sq m.

The outlook for Ortigas is somewhat mixed. Although residents such as the San Miguel brewery, the Asian Development Bank and large retail outlets, including the Megamall, are based in Ortigas, large areas are still underdeveloped – and unlike Makati, it has not established itself as a premier business address. Office space in Ortigas sells at between P60,000 and P70,000 a square metre, compared to up to P100,000/sq m in Makati. Heavy traffic, a lack of parking and inadequate infrastructure are viewed as limiting factors in both Makati and Ortigas.

There are eight purpose-designed, integrated centres in various stages of development being touted as possible alternative business districts. Even if they do not supplant Makati and Ortigas, they will transform the city's skyline, layout, and character.

One contender for the crown of new premier business district is the Filinvest Corporate City (FCC) on a 244 ha site, about the size of downtown Manhattan in New York, 10 km south of Manila's international airport and 15 km from Makati. Land sales at the site began last year, and with prices ranging between P55,000 and P80,000 they are only 14 per cent of those in Makati.

Also in the running is the redevelopment of a military base bordering Makati. The 214 ha site, Fort Bonifacio, is being developed by a 17-member private consortium led by Metro Pacific, the Philippine arm of Hong Kong-based conglomerate First Pacific. Members of the consortium have signed memoranda of understanding enabling them to sell sites, lease or develop them with other contractors.

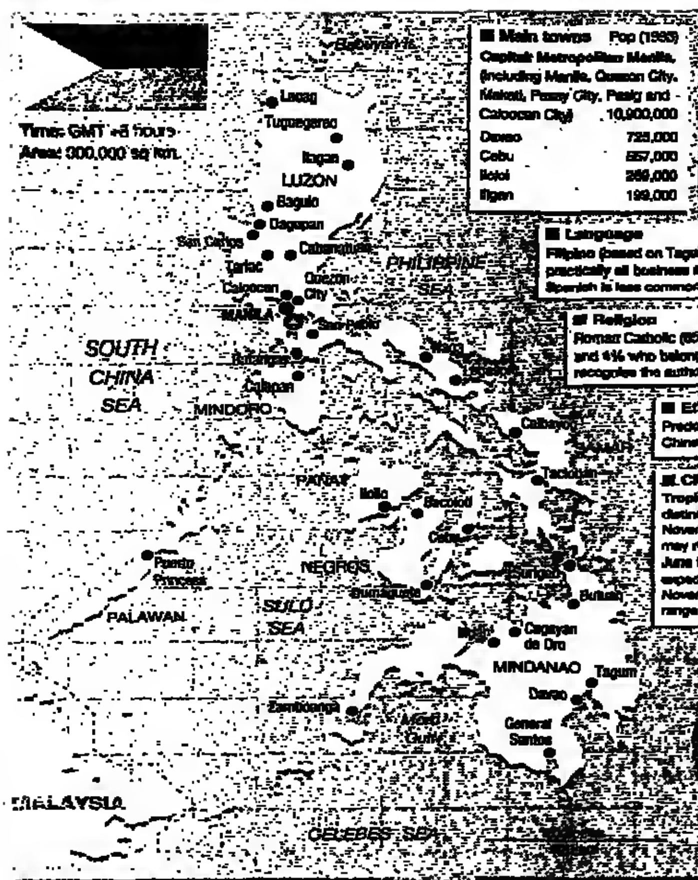
The master plan for the site has been approved, work is progressing on the design and development, and initial civil works for some sites has begun, according to Mr Bernard Durack, the managing director of operations at Fort Bonifacio Development Corporation. It will include a transport interchange to link the site to Clark and Subic Bay, Manila airport and outlying industrial development areas. Dubbed a "city within a city," Fort Bonifacio will group commercial and residential space, followed by schools, a university, retail outlets, hotels, leisure facilities and a golf course.

The corporation has begun pre-selling land lots at P170,000 to P180,000 a square metre, more than double the breakeven cost and five times the value of the consortium's controversial bid last year. Ayala Land, an established local real estate developer, which bid a total of P28bn for the Fort Bonifacio contract, came a distant second to Metro Pacific's P39bn offer, at the time viewed as a inflated and subsequently blamed for fuelling steep rises in land costs.

Despite the pent-up demand for new office and residential space, there is some apprehension about the longer-term prospects for the Philippine market. One limiting factor, particularly in tha middle residential market, could be an undeveloped mortgage and lending system, according to analysts. Some analysts also believe the total volume growth of new space, both office and residential, is close to peaking, and could turn the market from a seller's market into a buyers one. This has also given rise to predictions of rising vacancy rates in both office and residential developments over the next 18 months to two years.

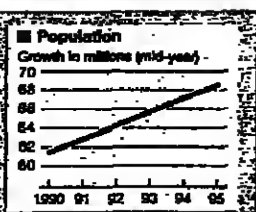
There is also concern there may be an oversupply of residential housing, condominiums and flats, which has prompted some developers to begin offering purchasers spread payments. There is no talk of a property "crash", rather a realignment or levelling off of prices, with the possible exception of niche or specialist sectors. "Two years ago, you could invest anywhere and make money, now you need to be a bit more careful," said one analyst.

6 THE PHILIPPINES



Time: GMT +8 hours
Area: 300,000 sq km

Main towns Pop (1990)
Capital: Metropolitan Manila (including Manila, Quezon City, Makati, Pasay City, Pasig and Caloocan City) 10,000,000
Davao 720,000
Cebu 657,000
Iloilo 300,000
Iligan 190,000



Language
Filipino (based on Tagalog) is the national language, but practically all business and politics is conducted in English. Spanish is less commonly spoken than previously.

Religion
Roman Catholic (85%), Moslem (?%), Protestant (4%), and 4% who belong to a Catholic sect which does not recognise the authority of the Holy See.

Ethnic mix
Predominantly Malay. Others include Chinese and North Americans.

Climate
Tropical. The Philippines has two distinct seasons. The dry season is from November to May when the temperature may reach 32C. The wet season is from June to October and monsoon rains are expected during these months. From November to February temperatures range between 21C and 28C.

Government and constitution

Head of state: President Fidel Ramos, head of the ruling Lakas-NUCD coalition party

House of Representatives (204 members)

Lakas-NUCD	131 seats
LDP-Laban	39 seats
NPC	22 seats
Liberal Party	15 seats
Others	seats

Senate (24 members)

Liberal Democratic Party (LDP)	14 seats
Lakas-NUCD (National Union of Christian Democrats)	4 seats
National People's Coalition	2 seats
Liberal Party	2 seats
Independent	1 seat
People's Reform Party	1 seat

● Last elections: May 1992 (presidential and congressional) May 1995 (House of Representatives & half of the Senate)
● Next elections: May 1998 (presidential and congressional)

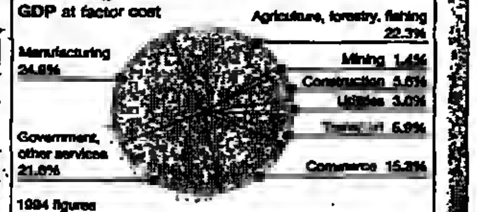
Legal system
Based on common law. The 1987 constitution contains Bill of Rights and prescribes a judiciary with Supreme Court at apex.

International organisations (membership)
APEC, ASEAN, ASPAC, Asian Development Bank (ADB), CCC, Colombo Plan (CP), EU Trade and Co-operation Agreement, ESCAP, FAO, G-24, G-77, GATT, IAEA, ICAO, IDA, IFAD, IFC, ILO, IMF, INTELSAT, INTERPOL, IPU, IRC, ISO, ITU, MIGA, NAM, OIC (observer), UN, UNESCO, UPU, WFTU, WHO, WIPO, WMU, World Bank, WTO.

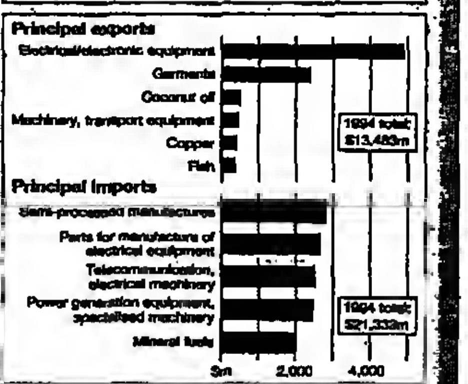
Economic summary

	1994	1995
Total GDP (real, P bn)	1,692.8	1,905.3
Real GDP growth (%)	4.4	4.9
GDP per capita (US $)	954	1,083
Consumer prices, inflation (%)	9.3	8.1
Merchandise balance ($bn)	7.72	9.051
Prime interest rate, year end (%)	15	10
Total external debt ($bn)	39.1	42.2
Unemployment (av % of workforce)	8.4	8.3
Fiscal balance (% of GNP)	1.1	0.5
Gross international reserves ($bn)	7.12	7.5
Money supply growth (%)	26.6	25.3
Current account balance ($bn)	-2,840	-1,910
Exports fob ($m)	13,483	17,320
Imports fob ($m)	21,333	28,480

GDP at factor cost



1994 figures



Doing business

Entry requirements
Passport: Required by all visitors. In some cases, other valid travel documents, complete with re-entry permits to ports of origin are accepted.
Visa: Except for transit visitors, visas are not required for UK nationals for a stay of up to 21 days provided confirmed return or onward air or sea tickets are held prior to arrival. Extensions are possible, obtainable from diplomatic or consular offices.

Health control
Mandatory: Vaccination certificates required for yellow fever if travelling from an infected area and, sometimes, cholera.
Advisable: Anti-malaria precautions and vaccinations against tetanus and typhoid.

Currency exchange rate
Currency: Peso
Rate vs $: 1$ = P26.18
There is no limit on the amount of foreign currency which may be imported, but amounts in excess of US$3,000 must be declared. Foreign currency exports are limited to amounts declared on entry. No more than P500 may be imported.

Customs
Importation of arms, explosives, pornography, seditious publications and gambling equipment are prohibited.

Travel
National airline: Philippine Airlines (PAL). Many other major airlines connect.
Main airport: Ninoy Aquino International (MNL), 12km south of Manila.
Tax: International departures P500, excluding transit passengers and children under two years (Apr 1995).
Shipping: Several shipping lines operate cargo and containerised freight services.

Getting around
Self-drive and chauffeur-driven car hire is available. International driving licences are acceptable. Driving is on the right-hand side of the road. Local driving habits make traffic conditions extremely difficult.
Buses: Numerous inexpensive bus and jeep-type services operate in and around main centres. They can be crowded, and knowledge of the area is recommended before travelling by bus.
Rail: In Metro Manila, the mass transport system is complemented by a 15 km elevated Light Rail Transport (LRT) system. Philippine National Railways (PNR) also operates between La Union (North Luzon) and Legazpi (South Luzon).
Taxis: Metered taxis are available. Tipping is not customary.

Service charges
A service charge of 13 per cent and a government tax of 10 per cent are usually added to bills.

Credit cards
Major credit cards accepted.

Public holidays
Fixed dates: 1 Jan (New Year's Day), 9 Apr (Araw Ng Kagitingan or Hero's Day), 1 May (Labour Day), 12 Jun (Independence Day), 1 Nov (All Saints' Day), 30 Nov (Bonifacio Day), 25 Dec (Christmas Day), 30 Dec (Rizal Day), 31 Dec.
Variable dates: Maundy Thursday, Good Friday, National Heroes day (last Sun in Aug).

Working hours
Working hours vary. Some banks and offices open for a half day on Sat and, in the Manila area, many shops open for a half day on Sun.
Business: (Mon-Fri) 0800 - 1200/1300, 1300/1400 - 1700 (Sat) 0830 - 1200.
Government: (Mon-Fri) 0730 - 1130, 1230 - 1630 or 0800 - 1200, 1300 - 1700.
Banking: (Mon-Fri) 0900 - 1600.
Shops: (Mon-Sat) 0900 - 1200, 1400 - 1930.

Telecommunications
International telecommunications are via satellite communications, telex lines, microwave relay stations and undersea cable.
Telephone: Dialling code for the Philippines, IDD access code + 63 followed by area code (2 for Manila) followed by subscriber's number.
Telex: Public telex booths are operated by servers. Telex facilities are also available at good hotels. Telegram service is available.

Banking
Central bank: Central Bank of the Philippines
Main banks:
There are 32 commercial banks.
Foreign banks: The Chartered Bank, Hongkong and Shanghai Banking Corp, Citibank, and Bank of America.
Government-specialised banks: Land Bank of the Philippines, Philippine Amanah Bank and the Development Bank of the Philippines.

Trade fairs
Contact the Philippine Convention Bureau, 4th Floor, Legazpi Towers, 300 Roxas Boulevard, Manila (tel: 575-031 tx: 40-604).

Chamber of Commerce
Philippine Chamber of Commerce and Industries, CCP Building, Magallanes Drive, Intramuros, Manila 2801 (tel: 403-082).

National tourist office
Tourism Council of the Philippines, Suite 326, PICC Building CCP Complex, Roxas Blvd, Metro Manila (tel: 831-2404, 833-1482).

Key ministries
Department of Finance, Finance Building, Valencia Circle, Ermita, Manila (tel: 483-654, 402-288, 474-227 fax: 521-9495). Minister Roberto de Ocampo (finance)
Department of Foreign Affairs, DFA Building, 2330 Roxas Boulevard, 1300 Pasay City (fax: 832-1597). Minister Domingo Siazon
Department of Trade & Industry, 4/F Industry and Investments Building, 385 Sen Gil J Puyat Avenue, Makati, Metro Manila (tel: 818-1831/39 fax: 863-558). Minister Rizalino Navarro (trade & industry)

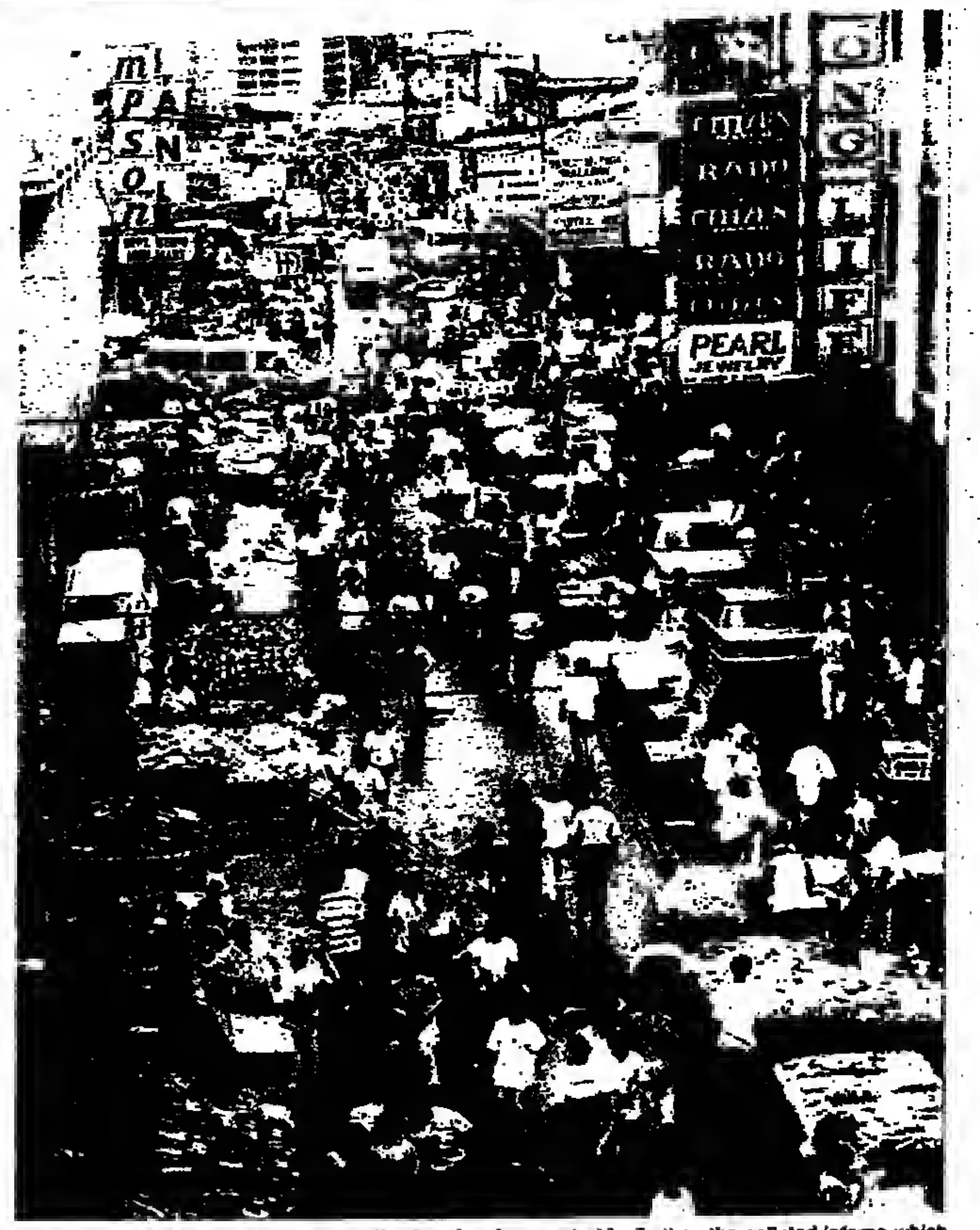
Stock exchange
Two stock exchanges operate in Metro Manila.

Taxation
The corporate income tax rate is 35%. Personal income tax rates range from zero on net income of P5,000 ($191) to 30% on annual income of more than P500,000.

Hotels

Calatagan, Batangas, Luzon Punta Baluarte, PO Box 731, 4001 (tel: Ma'la 864-164, 815-9711 fax: 817-1330).
Cebu Plaza, Barrio Nivel, Lahug (tel: 61-630, 92-431/39, 92-441/49 fax: 817-3434).
Magellan International, Gorordo Avenue, Lahug, PO Box 6401 (tel: 74-613/25 tx: 24-729).
Montebello Villa, Banilad, 6401 (tel: 86-021/31, 85-539 tx: 66-030 MONTE PN).
Park Place, Fuente Osmena (tel: 211-131 fax: 817-3434).
Rajah, Fuente Osmena Street, PO Box 584, 6401 (tel: 96-231).
Davao City, Davao de Sur, Mindanao **Davao Insular Inter-Continental**, Lanang, 9501, PO Box 144 (tel: 76-051/61 tx: 62-959).
Manila Admiral, 2138 Roxas Boulevard, PO Box 7155 (tel: 572-081/94 fax: 522-2018).
Bayview Prince, Roxas Boulevard and UN Avenue, PO Box 771, 2801 (tel: 503-061 fax: 521-5773).
Century-Park Sheraton, Corner Vito Cruz and M Adriatico Streets, Malate, PO Box 117 (tel: 522-1011 fax: 521-3413).
Holiday Inn Manila, 3001 Roxas Boulevard, Pasay City, 3129 (tel: 597-961/80 fax: 522-3985).
Hyatt Regency Manila, 2702 Roxas Boulevard, Pasay City (tel: 831-2611 fax: 833-5913).
Inter-Continental Manila, Hotel Drive, Ayala Avenue, Makati, PO Box 731 (tel: 815-9711 fax: 817-1330).
Mandarin Oriental, Makati Avenue, Makati, PO Box 1038 (tel: 816-3601 fax: 817-2472).
Manila, Rizal Park on Manila Bay, PO Box 307 (tel: 470-011 fax: 471-124).
Manila Garden, 4th Quadrant, Makati Commercial Centre, Makati (tel: 810-4101 fax: 817-1862).
Manila Hilton International, United Nations Avenue, Ermita, PO Box 4430 (tel: 573-711 tx: 63-397).
Manila Royal, Carlos Palanca Street, Santa Cruz, PO Box 2999 (tel: 488-521 tx: 40-334).
Westin Philippine Plaza, Roxas Boulevard, PO Box 1146 (tel: 832-0701 fax: 832-3485).

Source: EIU, WOI



It might look like hell to the weary traveller, but there's more to Manila than the polluted inferno which initially meets the eye
Picture: Patrick Mugnoz

■ **Travel** by Edward Luce

Madness in the streets of Manila

What starts off looking like a holiday in hell turns out to have a quirky charm

Just arrived in Manila? Been waiting two hours for your luggage? Spent three hours in a traffic jam en route to the hotel? Don't turn back. Anyone can admit defeat and plenty do. It might look like hell. But remember, there's more to Manila than the polluted inferno which meets the eye.

Aesthetically, of course, it's not up to much. If you're looking for architectural reminders of the Spanish colonial era, prepare to be disappointed. The cobbled plaza is long out of fashion. Don't bother hunting too hard for your favourite paella dish either. You're more likely to get a mouldy hamburger – though to be fair, there are some great European and Chinese restaurants nowadays.

With a few notable exceptions, the secrets of Manila are decidedly not to be found in its buildings or its cuisine. Nor can they be located in the city's bookshops (unending tomes of romantic pulp and "How to be a successful businessman" do-it-yourself guides) or indeed its "girlie bars" where overweight foreigners chat up Filipina teenagers.

Manila's charms don't leap off the postcard to greet you. They have to be hunted down in unlikely corners and in the most serendipitous of circumstances. Take the Manila Memorial Park, final resting place of many of the country'a great and good, including Ninoy Aquino, husband of former president Cory Aquino, gunned down on his return from exile in 1982.

Manila Memorial Park and adjacent Loyola Park's grandiose catholic tombs stretch mile after mile. Gothic row aftar row. They are truly cities of the dead. Some of the tombs reach two storeys high. Many are thoughtfully equipped with electricity and running water for the comfort of the deceased. And some are actually inhabited by descendants of the dead who no doubt save cash, and derive comfort, from living inside the family tomb.

It would perhaps be bordering on hyperbole to recommend a cemetery crawl around the city's memorial parks. But these are just two of many. The Chinese cemetery is another eye-opener, if visitad on the ralevant ancestor-worshipping dates. The combination of catholicism and Chinese spiritualism is, to say the least, unusual. Imagine genuflecting to the Virgin Mary then burning a few "after-life" dollar bills just in case Rome was mistaken.

If you want a bit of quietism after that disorienting experience, head towards the American War Graves cemetery next to Forbes Park, a "village" (urban suburb) for the rich and lucky. Situated on a hill overlooking Bonifacio – a 240 ha plot which is being developed as Manila's 21st century business district – thousands of white graves stand in stark, protestant contrast to Manila's other graveyards. Block out the rest and it could be Flanders. The experience is a poignant reminder of what happened to Manila in 1945.

Indeed, most of the blame for the town's lack of structure or focus can be laid at the door of the retreating Japanese armies in 1945 who spurned General Douglas MacArthur's offer to declare Manila an "open city". The upshot, after an orgy of levelling and co-ordinated sabotage, was the worst damaged allied city barring Warsaw. Unlike Warsaw, though, Manila had very little agreed "national" culture to subsequently draw upon.

The archipelago'a jumble of Malay, Chinese, Spanish and even Indian ethnic groups in part explains the country's elusive national identity. As the only predominantly Christian country in east Asia and the only state, with the exception perhaps of Malaysia and Singapore, where the de facto national language is English, the Philippines defies convenient typecasting. As by far the largest city in the country with an endless accretion and a population approaching 12m, Manila aptly symbolises this jumble.

A quick visit to Mega Mall next to the Asian Development Bank's headquarters in Ortigas – another mushrooming business district silhouetted by the rising skyscrapers of the latest real estate boom – gives insights few indoor shopping centres can provide elsewhere. As the largest indoor mall in Asia, covering 331,000 sq m, this vast box often seems to be the middle class's favourite weekend retreat.

Some among the 1.5m who frequent it every weekend do, in fact, spend the better part of their spare time in Mega Mall on its ice skating rink, inside its cavernous cinema halls or browsing around one of the endless department stores. Doubtless the same people will flock to the Mall of Asia, a 500,000 sq m shopping centre which will pip the mall in Edmonton, Canada, to the post as the largest in the world when it is completed in 2000 or thereabouts.

The mall, which is to be built on reclaimed land off Roxas Boulevard, Manila's seafront road which used to boast the most beautiful sunset in Asia, will overlook the Bay of Manila. Once a bay of schooners and host, of course, to the annual visit of the Spanish trading galleon (which journeyed to Acapulco, helping to keep the colony and its "friarocracy" of priests in hock), the water now bobs with merchant tankers and fleets of "power barges" supplying Manila with electricity.

This cathedral to shopping will rise side-by-side to the kitsch convention and cultural centres built by Imelda Marcos during the 1970s and 1980s on a previous frenzy of land reclamation. Among these monuments to vanity, is one which, according to a few brave journalists, contains the bones of construction workers who fell victim to the first lady's tight deadlines and were left to submerge in tombs of cement. It is, they say, haunted.

Further down the boulevard towards the Manila Hotel – the post and pre-war headqoartera of General MacArthur – stands Intramuros, probably the most evocative monument to the city's Hispanic era. The collection of churches, indoor courtyards and old city battlements seem quaint next to the Intramuros golf course and its well-heeled putters.

The course, one of many to have sprouted in the last five years, sits more comfortably with the town's Karaoke dens and cosmopolitan hotels than the old city walls which overlook it. Indeed, with golf membership prices at the most expensive clubs exceeding US$1m, Manila is arguably closer to Tokyo than Madrid or Mexico City.

A few hundred metres from Intramuros, the 10-lane EDSA (Epifanio de los Santos) highway, with its the snail's pace queues of colourful jeepneys, Japanese cars and second-hand Korean buses, holds clues to events of more contemporary historical significance.

Ten years ago, in the build-up to the peaceful overthrow of the late president Ferdinand Marcos, the highway was jam-packed with students, AWOL soldiers, maids and brazen nuns sticking flowers into the rows of tanks confronting them. Further up Edsa, at the "Ten years after" pub in a former church where the bar has replaced the altar, more obvious pointers can be found. The bar'a riotous nostalgia drums out a vivacity more representative of Manila than its few remaining Spanish churches.

This charm, often well-concealed and frequently exasperating, can be found in the city's inhabitants – that contradictory mass of semi-Americanised, semi-Asian, sometime-catholic but inimitably Filipino people. In retrospect, and with, perhaps, a modicum of surprise, that two-hour wait at the luggage belt might seem well worth the hassle.

FT SURVEYS INFORMATION

Recent surveys or surveys coming up soon which focus on or feature this region, include the following:

The World Economy	Friday September 27
Business Travel	Monday October 7
FT Exporter	Wednesfay October 9
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Europe's most respected companies

The quality and implementation of corporate strategy are high on the list of attributes admired by top managers. And for the third year running, Guy de Jonquières reports, they believe one company above all exemplifies these qualities

EUROPE'S MOST RESPECTED COMPANIES
FT FINANCIAL TIMES
Price Waterhouse

Rank				
1 ABB	Company	ABB	1996	1
	Country	Sweden/Switzerland	1995	1
	Sector	Engineering	1994	=1
	Turnover ($m)	[illegible]	R.O.C.E.*	33.84%
2	Company	[illegible]	1996	2
	Country	United Kingdom	1995	3
	Sector	Transport	1994	4
	Turnover ($m)	[illegible]	R.O.C.E.	11.44%
3	Company	[illegible]	1996	3
	Country	[illegible]	1995	2
	Sector	[illegible]	1994	6
	Turnover ($m)	[illegible]	R.O.C.E.	[illegible]
4	Company	BMW	1996	4
	Country	Germany	1995	4
	Sector	Automobiles	1994	8
	Turnover ($m)	31,130.00	R.O.C.E.	4.49%
5	Company	Royal Dutch Shell	1996	5
	Country	Netherlands/UK	1995	=5
	Sector	Oil, gas and mining	1994	3
	Turnover ($m)	107,916.00	R.O.C.E.	14.59%
6 SIEMENS	Company	Siemens	1996	6
	Country	Germany	1995	8
	Sector	Electronics	1994	21
	Turnover ($m)	89,881.90	R.O.C.E.	2.4%

*Return on capital employed is based on profit before interest and tax, after exceptional items; **The average exchange rates for August 1996 have been used for currency conversions

Company	Country	Sector	Turnover ($m)	R.O.C.E (%)	1996	1995	1994
Marks & Spencer	UK	Retail & distribution	11,216.50	19.73	7	=5	=1
British Petroleum	UK	Oil, gas & mining	55,987.00	9.76	8	=15	–
Unilever	Netherlands/UK	Food processors	96,824.80	21.30	9	7	5
Roche	Switzerland	Pharmaceuticals & healthcare	12,242.80	9.21	10	=10	–
Bayer	Germany	Chemicals, rubber & plastics	30,074.90	11.80	=11	–	–
Ericsson	Sweden	Electronics & electrical components	14,927.30	17.71	=11	9	–
Danone	France	Food processors	15,896.90	7.82	13	=15	–
Air Liquide	France	Chemicals, rubber & plastics	8,359.50	13.91	=14	=12	12
Philips	Netherlands	Electronics and electrical components	38,771.80	13.21	=14	=19	–
ING	Netherlands	Banks and financial institutions	N/R	17.48	=16	=26	–
Saint Gobain	France	Construction, homebuilding and building materials	13,891.10	11.08	=16	–	–
Swissair	Switzerland	Transport	5,503.50	-1.23	=16	=26	–
Nokia	Finland	Electronics and electrical components	8,221.80	16.54	19	=26	–
Bertelsmann	Germany	Media, printing and advertising	13,866.30	16.86	=20	–	–
Deutsche Bank	Germany	Banks and financial institutions	N/R	12.48	=20	–	7
Reuters	UK	Media, printing and advertising	4,191.30	59.75	=20	14	–

Europe's top managers are, it seems, remarkably consistent when it comes to judging corporate excellence. For the third year running they have voted ABB, the Swedish-Swiss engineering group, Europe's most respected company in a survey carried out by the Financial Times and Price Waterhouse.

Though ABB again achieved an impressive score on a wide range of criteria, it is not alone in establishing itself as a firm favourite. Nine of this year's 10 most respected companies also featured in last year's top 10 – though there were some changes in the ranking order.

British Airways moved up a place to second position, nosing ahead of Nestlé of Switzerland. Siemens of Germany rose two places, while British Petroleum entered the top 10 for the first time. Britain's Marks & Spencer and the Anglo-Dutch Unilever slipped slightly, while Fiat of Italy – joint No.10 last year – tumbled out of the league table.

However, the survey also yielded some surprises, which cast an interesting perspective on its other findings. Asked which company they respected most, regardless of its country of origin, European managers plumped by a substantial margin for General Electric of the US. ABB was relegated to second position, shared with Microsoft of the US.

Furthermore, no fewer than six of the 11 top-ranked companies in this category are US-based, while companies from other non-European countries barely rate a mention. That suggests not only that many of Europe's top executives look across the Atlantic for inspiration but that Japanese corporate prowess no longer enthrals them as it did in the 1980s.

Widening the survey to include views on companies based outside Europe is one of several innovations this year. The questionnaire has been refined and expanded to pinpoint more precisely the most highly-prized corporate attributes – and which companies are perceived to possess them.

Respondents were also asked to name the European business leader they most respect, the companies they use as performance benchmarks, and the main challenges confronting business. Finally, the survey was sent to chief executives and presidents of more companies – more than 1,400 compared with 1,000 last year.

Differences in methodology mean that too much should not be read into variations or contrasts between the findings this year and last. Nor does the survey pretend to be a scientific exercise. Nonetheless, it points to some clear conclusions about the values and priorities of European managers.

Overall, the most highly-prized corporate attributes emerge as quality and implementation of corporate strategy, management of complexity, and skill at balancing the interests of customers, employees or shareholders. Branding, basic financial measures of success, innovation and corporate ethics are all considered less important.

These perceptions are borne out by ABB's score. As well as being the overall winner, it is rated excpetioocally highly for business performance, corporate strategy and maximising employee potential. It is also cited most frequently as the benchmark against which other companies measure their performance.

Indeed, admiration for ABB's achievements is overshadowed only by esteem for Mr Percy Barnevik, its president. Named Europe's most respected business leader, he attracted more votes than were cast for his company in the overall rankings: he was particularly praised for strategic vision and focus.

The ability to achieve sustained success by adopting long-term strategies, while adjusting quickly to changing market conditions, is especially highly regarded. The findings suggest that companies which score well on these criteria can ride out short-term reverses or blemishes to their reputation.

In this context, two findings are striking. Despite controversy over the disposal of its Brent Spar oil rig, Shell was named as the company which deals best with environmental issues. Meanwhile, adverse publicity over BA's "dirty tricks" campaign against Virgin Airlines did not prevent BA taking joint sixth place among companies respected for demonstrating the highest standards of ethical conduct.

The findings also suggest that the European companies most likely to be held in high esteem are large and involved in manufacturing or heavy industry. Despite the growing economic importance of services businesses, these are poorly represented at the upper levels of the overall rankings. Honourable exceptions include BA, Marks & Spencer, ING, Swissair, Deutsche Bank and Reuters.

Furthermore, the most highly respected companies tend to be long-established. Virgin, the only genuinely young company in last year's top 30, failed to make the grade this year, though it is ranked first for innovation.

The only other youthful concern to attract wide support is SAP, a fast-growing German software company. It is rated highly for innovation and maximising long-term value to shareholders.

But if that suggests that European managers can be cautious about the new, they had no hesitations about naming Novartis - a company which does not yet formally exist - as the best-judged recent merger or acquisition. As of early September, consummation of this planned merger of Ciba and Sandoz, two Swiss pharmaceuticals companies, was still awaiting US anti-trust clearance.

Though the survey sample was geographically broadly based, the most highly regarded companies are overwhelmingly from northern Europe. Companies from the south are conspicuously absent from the overall league table, and poorly represented in rankings by specific attributes.

Among the few exceptions are

Continued on page 4

Analysis of attributes: by Geoff Dyer

How companies view each other

The category of most innovative company gave newer groups a chance to shine

In this year's survey of Europe's Most Respected Companies the series of questions on specific attributes was expanded to get a more detailed view of how company executives view their peers.

The answers to these queries – which covered topics such as corporate strategy, brand image and the use of new technology – threw up some of the most interesting findings.

The companies which scored highly in the overall table had a strong showing in these specific categories. Indeed, both ABB and British Airways, the overall numbers one and two, came top in four separate categories. However these companies by no means dominated the results.

Perhaps the most surprising response from any of these categories was the nomination of Shell as the European company which is best at dealing with environmental issues.

This, in a year in which Shell's name was persistently in the news connected with environmental controversy – first with the failed attempt to sink the Brent Spar terminal and then through its oil activities in Nigeria. Shell also came second in the category of companies which show the highest standard of ethical conduct. On this topic it was beaten by Marks and Spencer, which has also faced adverse publicity this year over allegations – hotly denied by the company – that it took advantage of child labour in developing countries.

And while few will be surprised that Body Shop, the UK green cosmetics group, was mentioned in this category – it came 5th – the appearance of Benetton, which has been widely criticised for some of its advertising, was unexpected.

Further evidence that companies can put bouts of adverse publicity behind them, at least in the eyes of their peers, came with British Airways' nomination, as the company which provides the highest level of customer satisfaction – despite the allegation of a "dirty tricks" campaign against Virgin Airways.

In a survey dominated by companies with long-established names, the category of most innovative company gave some newer groups a chance to shine, with Virgin coming top.

The survey produced some results which contradict the widely-held view that Anglo-Saxon capitalism breeds short-termism and an obsession with shareholder value.

When the question was asked which companies were best at balancing the interests of shareholders, employees and customers – sometimes known as the concept of stakeholder companies – the winner was BA, with Marks and Spencer in second place. BP, Reuters and Rentokil were also mentioned.

The same companies were commended for maximising employee potential and were also commended for providing long-term value, qualities more often associated with continental companies. UK companies also scored highly for coping with the transition from state sector to private ownership, which is not wholly surprising given that the UK started the process of privatisation earlier than other countries. BA picked up nearly 50 per cent of the votes for the top 10 companies in this section. KPN, the Dutch telecoms company, and Repsol, the Spanish energy conglomerate, also did well.

Nokia, the Finnish mobile phone manufacturer, Reuters and Ericsson, were clear leaders in the category of making the most effective use of technology. First Direct, Midland Bank's telephone banking service, came ninth, suggesting a confusion in the replies to this question between high-tech companies and taking advantage of technology.

The companies which were voted to have shown the biggest improvement included ING, the Dutch financial services group, which acquired Barings when it collapsed last year. Luxottica, the Italian maker of spectacles, and Asda, the UK retailer, both of which did not feature highly elsewhere in the survey, scored well in this category.

The winners of the industry sectors demonstrated the persistence of national reputations. The automobiles and auto parts sector was dominated by German companies, with BMW scoring twice as many votes as its nearest rival, Robert Bosch.

At the same time UK groups scored highly in the media, printing and advertising sectors and in retail and distribution. Swiss companies headed the pharmaceuticals sector, with Novartis, coming a creditable second behind Roche, given that the proposed merger between Sandoz and Ciba which brought it into being was so recent.

The closest contest was in oil, gas and mining, with Shell just pipping BP, while the transport sector is dominated by airlines, BA beating Swissair and Lufthansa.

In the insurance sector, Allianz of Germany was the winner, although ING of the Netherlands received more votes in the overall category, coming 16th equal.

Holderbank of Switzerland, one of the world's largest cement producers, which comfortably won the construction, housebuilding and building material category, was also notable for not receiving any votes from its own country. Competitors in five other countries nominated the group.

RWE, Germany's largest electricity group, which came second in the electricity and water sector, also only received votes from peers outside its country. It was beaten by PowerGen, the recently privatised UK generator, whose main rival, National Power, did not make it into the top three.

The country winners repeated many of last year's results, with BMW of Germany, Nokia of Finland and El Corte Inglés of Spain coming top again.

However, Fiat's improved fortunes over the last year were reflected in its promotion to the top place in Italy.

The increased scope of this year's survey allowed the inclusion of winners for several countries from which there had not been sufficient information in the past.

VA Technology, the Austrian engineering group, Lego, the Danish toy-maker, and Sonae, the Portuguese conglomerate, were all clear winners in their countries.

Sector rankings

Rank	Company	Country
Automobiles/trucks & parts		
1	BMW	Germany
2	Robert Bosch	Germany
=3	Volkswagen	Germany
=3	Fiat	Italy
Banks & financial institutions		
1	Deutsche Bank	Germany
2	Lloyds TSB	UK
3	ABN Amro	Netherlands
Beverages & tobacco		
1	LVMH	France
=2	Carlsberg	Denmark
=2	Heineken	Netherlands
Construction		
1	Holderbank	Switzerland
2	Lafarge	France
=3	Caradon	UK
=3	Skanska	Sweden
Electronics		
1	Siemens	Germany
2	Electrolux	Sweden
3	Nokia	Finland
Electricity & water		
1	PowerGen	UK
2	RWE	Germany
3	Lyonnaise Des Eaux	France
Engineering		
1	ABB	Sweden/Switzerland
=2	Atlas Copco	Sweden
=2	Kvaerner	Norway
=2	Smiths Industries	UK
Food processors		
1	Nestlé	Switzerland
2	Unilever	Netherlands/UK
3	Danone	France
Household		
1	Max Mara	Italy
2	Hugo Boss	Germany
Insurance		
1	Allianz	Germany
2	ING	Netherlands
3	Münchener	Germany
Media, printing & advertising		
1	Reuters	UK
=2	Bertelsmann	Germany
=2	Reed Elsevier	Netherlands/UK
=2	WPP	UK
=2	BBC	UK
Oil, gas & mining		
1	Royal Dutch Shell	Netherlands/UK
2	British Petroleum	UK
3	VEBA	Germany
Pharmaceuticals & healthcare		
1	Roche	Switzerland
2	Novartis	Switzerland
=3	Glaxo-Wellcome	UK
=3	Smith & Nephew	UK
Retail & distribution		
1	Tesco	UK
2	Carrefour	France
3	Marks & Spencer	UK
Telecoms & communications		
1	British Telecom	UK
2	PTT Post	Netherlands
3	Telia	Sweden
Transport & transport services		
1	British Airways	UK
2	Swissair	Switzerland
3	Lufthansa	Germany

Bill Gates' Microsoft came a joint second

Jack Welch: heads General Electric, which tops the world table

World league: by Guy de Jonquières

US top of the table

Executives hold up American companies as models of management

Rank	Company	Country	No of countries voting	% votes
1	General Electric	US	8	14.5
2	ABB	Swe/Switz	8	9.9
2	Microsoft	US	8	9.9
4	British Airways	UK	5	7.8
5	Coca-Cola	US	8	6.9
6	Nestlé	Switzerland	5	3.8
7	BMW	Germany	4	3.0
7	Procter and Gamble	US	4	3.0
9	Fiat	Italy	2	2.3
9	General Motors	US	3	2.3
9	Hewlett-Packard	US	3	2.3

Most respected companies in the world

It is not that long ago that many European business people – and some of their transatlantic counterparts – viewed corporate America with ill-concealed disdain. Prey to financial markets apparently fixated with short-term returns, out-manoeuvred by Japanese competitors and often wrestling with obsolete working practices, many big US companies seemed on the road to oblivion.

What a difference a few years can make. From the survey findings in the world table, it appears that European managers not only believe that US companies are on the comeback trail, but hold them up as models of improved management.

None more so than General Electric, which is held in higher respect than any European company.

Respondents particularly praised its long-term business performance, exceptional profitability and its success in defying the current bias against corporate diversification.

Microsoft won plaudits for successfully riding the roller coaster of the information economy, while Coca-Cola was applauded for pursuing a long-term global strategy and a firm commitment to shareholder value.

More than 90 per cent of executives responding to the survey nominated one company which they most respected, regardless of its country of origin. However, the geographical pattern of support for individual companies varied considerably.

More than half the votes for GE were from executives in Germany and Italy. ABB won more than half its votes from Finland and Britain and won only one vote from Germany. More than half of Microsoft's votes were from Germany and Britain, while BA attracted more support from Italy than from the UK.

At least as striking as the strong showing of US companies is the virtual absence in the table of contenders from any other non-European country. Asia, the only other region mentioned, by respondents, won a mere 3 per cent of the votes, divided between Sony and Mitsubishi of Japan and Singapore Airlines.

Yet survey respondents also named intensifying competition, particularly from the Far East, as one of the biggest challenges facing European business in the future.

Another oddity is that Fiat of Italy achieved a relatively high ranking in this part of the survey, while losing its place among the top 30 European companies which command the greatest respect overall.

Shareholder value: by Tony Jackson

Respected, but short on excellence

In terms of shareholder value, top US companies are ahead of Europe's leaders

The definition of excellence in companies will always be partly subjective. But there is one measure which is, within its narrow limits, purely objective: how far a company has created value for its owners, in the form of increased dividends and a rising share price.

This question was touched on in the survey, but in an indirect way. Respondents were asked which European company was best placed to provide maximum long-term value to shareholders. Put that way, the question is one of forward-looking opinion, rather than a bald appeal to the record.

The difference is subtle, but important. Shareholders naturally prefer to emphasise past share price performance, since it leaves less room for excuses on the part of underperforming managers. And in Europe, it is often argued, shareholders tend to occupy a less important place in the scheme of things than in the US.

As a means of looking at this, Price Waterhouse has compiled figures for the total shareholder return (TSR) achieved by the top companies (using data from Datastream and Bloomberg). This measures the average percentage rise in value of the stock of each company over five years, assuming that dividends have been reinvested over the period.

This is broadly similar to a popular US measure, market value added (MVA). In the US, MVA is taken increasingly seriously. A recent issue of Chief Executive, for instance, nominated as its chief executive of the year Roberto Goizueta of The Coca-Cola Co. Much was made of the fact that Coca-Cola's market value exceeds the capital invested in it since its inception by $61bn, the highest figure among the top 1,000 US companies.

Second comes General Electric, with an MVA of $52bn. This brings us back to our European survey: for GE was the company most admired by respondents to the survey on a worldwide basis. So how do European companies fare against that criterion?

In a word, badly. The most respected company, ABB, achieved an average total shareholder return in the past five years of some 12-13 per cent (adjusting for the fact that it is quoted in both Sweden and Switzerland). In the past three years, the figure is 13 per cent for the Swedish shares and 19 per cent for the Swiss, compared to a total return of 66 per cent for the Swedish market in the period and 54 per cent in Switzerland.

In part, of course, the TSR result is dictated by the behaviour of the local stock market. Thus, the worst performer among the 22 leading companies in the survey has been Danone of France, with an average TSR of 1 per cent over five years and *minus* 3 per cent a year over the past three. And, indeed, the French stock market has been very weak over the period: though with the CAC 40 index producing an average total return of 4 per cent in the past three years, Danone has underperformed even in local terms.

A still more dismal performer in relative terms has been Deutsche Bank, which has averaged a TSR of only 3 per cent in the past three years compared to a local market performance of 44 per cent. Siemens, too, has managed only 8 per cent over the period, and 6 per cent average over 5 years.

At the other end of the scale, Nokia of Finland has produced an impressive TSR of 62 per cent on average over the past five years. This is made up of wild swings in the period, ranging from a return of 331 per cent in the year to July 1993 to minus 43 per cent in the year to July 1996. Nevertheless, the performance is impressive overall: and it is telling that it only warrants 19th place in the survey.

Indeed, the underperformance in terms of shareholder value is so consistent as to suggest a pattern. Of the top 23 companies, only two – L'Air Liquide and Saint Gobain of France – outperformed their local market. The great majority, including the top seven on the list, underperformed by more than half.

This is underlined by the fact that the companies ranked by respondents as best at creating long-term value – Shell, ABB, Nestlé and Roche – have all performed indifferently in stock market terms over the past five years. This can be explained in either of two ways: that respondents do not regard five years as the long term, or that the value created for shareholders is not uppermost in their minds.

Perhaps both are true. The typical survey respondent was the chief executive of a large European corporation. Most of those executives would probably work on longer planning horizons than five years. Many, one suspects, would regard the shareholder's interest as only one component – sometimes a minor one – in a much larger whole.

This touches on a wider debate. It is a cliche to say that continental European companies place more emphasis on stakeholder relationships – suppliers, bankers, employees – than do their competitors in the US and UK. It is also a cliche to accuse the US-UK approach of resulting in a short-term attitude to business and investment.

But the debate is shifting ground. The recent ousting of Carlo de Benedetti as head of Olivetti, for instance, bears some of the hallmarks of a shareholders' revolt.

Equally, it is notable that the survey respondents named General Electric of the US as their favourite company worldwide. Jack Welch, GE's chairman, is certainly a long-term strategist. But he is also an explicit champion of shareholder value.

Indeed, he has said that rewarding his managers in stock – as GE increasingly does – is an important way of channelling their competitive instincts into working for the good of the corporation as a whole. European managers plainly admire Mr Welch's results. It might also pay them to emulate his methods.

PROFILE Holderbank • By William Hall

Single-minded about cement

Switzerland's Holderbank, which has been voted the most respected company in the construction, homebuilding and building materials sector, is well known in the world cement industry as a professional competitor which has never deviated from its simple and successful long-term strategy of being an important participant in all the cement markets in which it competes.

However, visitors to Holderbank's unpretentious headquarters in a small village near Zurich could easily pass by the building without observing that it was the administrative centre for the world's biggest cement company. There are no cement plants in sight and there is no corporate logo advertising Holderbank's sale of more than 50m tonnes a year of cement and its employment of 44,000 people, the vast majority of whom work outside Switzerland.

The history of Holderbank started in a small village of the same name, about 30Km west of Zurich, where the Aargauische Portlandcementfabrik Holderbank-Wildegg was founded in 1912. Two years later, Ernst Schmidheiny bought a stake in the company and began the Schmidheiny family's long association with cement. Today, the family of Thomas Schmidheiny, the chairman and managing director, still controls more than 50 per cent of the company which last year had annual sales of SFr8.3bn ($6.9bn) and earned SFr463m.

Holderbank's emergence as an important multinational owes much to those early years. Even then the Schmidheinys realised that the company's long-term growth could not be secured by depending solely on the domestic Swiss market. The family started investing in overseas cement operations first in neighbouring European countries and in the late 1920s had operations in Egypt and Lebanon.

Over the years, there have been setbacks. Some businesses have been nationalised and the company's fortunes were hit by the problems of the Third World debt crisis in the 1980s. More recently the Mexican economic crisis led to a 25 per cent fall in Mexican cement production and Apasco, Holderbank's Mexican affiliate, saw its earnings collapse from $102m in 1994 to just $17m last year.

These setbacks might have frightened off other companies worried by the stock market's reaction to their exposure. However, Holderbank has always regarded overseas expansion as one of its main strengths and its strong family shareholding has meant that it could afford to be relaxed about the stock market's short term concerns.

When other companies, such as the UK's Blue Circle, were diversifying out of the cement business, Holderbank's diversification took the form of increasing its geographical spread. Today, Switzerland accounts for less than 10 per cent of the group's profits and it is the biggest cement producer in the US and number two in large markets such as Mexico, Brazil, Canada and South Africa. It is very strict about what it regards as its core businesses – cement aggregates, concrete and concrete chemicals – and its diversification is based on geography rather than product. When one market is down another will be up.

Thomas Schmidheiny, who joined the company in 1967 and has been the driving force behind its recent development, says that the cement industry started as a village industry – a small plant serving a couple of villages – and even today it is very much a regional business where dominant market share is the one of the keys to success.

Cement is a commodity product and there are only a limited number of ways that producers can differentiate their products. Quality and services, such as Holderbank's concrete chemicals business, matter. But at the end of the day Holderbank's profitability is very dependent on its pricing power. Consequently, the company's aim is to have market shares of between 30 per cent and 40 per cent in certain well-defined markets. It has sold off plants where its market position is too weak.

Holderbank, in common with other established European producers, has had to contend with increasingly tough competition from eastern Europe. Its reaction has been to attack its cost base, particularly in the area of fuel, and to use its efforts in this area to advance its case as an environmentally sensitive company.

مكبرا من الاصل

PROFILE Percy Barnevik, chairman and chief executive of ABB • By Stefan Wagstyl

Engineering a worldwide advance

For Percy Barnevik, the chairman and chief executive of third time overall winner ABB, the Swedish-Swiss engineering group, the biggest challenge is expanding his complex organisation into emerging markets.

What began seven years ago as e push into eastern Europe following the collapse of communism, has mushroomed into a worldwide edvance, focused on the former Soviet Union and Asia as well as on eastern Europe. The lessons learned in the early 1990s from investing in factories in Poland and the Czech Republic are now being applied further east, including in Russie, India, China and south-east Asia.

Mr Barnevik says ABB's aim is the "massive transfer of knowledge from west to east through our product lines ... The group is gravitating eastwards to eastern Europe and east Asia."

When the expansion into eastern Europe started the company transferred skills to factories in Poland and the Czech Republic from Switzerland, Sweden and Germany. Now it is using Polish and Czech engineers to train staff at newly-acquired businesses in the Ukraine and Russia. Nor does it neglect smaller countries – for example, companies in Norway, Sweden, Denmark and Finland have been entrusted with supporting emerging businesses in Lithuania, Latvia and Estonia, in a Baltic co-operation pact.

The pattern is repeated in Asia. ABB's factory automation plant in Bangalore, India, is being used to train engineers for Thailand and elsewhere in south-east Asia. Responsibility for developing a low voltage apparatus factory in Beijing – a key product in a key country – has been entrusted to managers in Singapore. Staff sent to China are mainly young overseas Chinese, mostly recruited in Singapore and Hong Kong.

Meanwhile, in South America, the large Brazilian operations are used as a base for supplying trained staff to smaller countries and in Africa, South Africa is a base for developing ties with other states.

Mr Barnevik says that without decentralising responsibilities, such transfer of skills would be costly. "It would be truly expensive if everything had to come through head office. Sending Americans, Swedes, or Germans everywhere would be expensive and less effective since they do not know the culture or the language."

However, ABB would not be able to achieve this degree of decentralisation if it did not have long experience in running a decentralised operation and a suitable management system.

Mr Barnevik has run the group since its foundation in 1988 by trying to push responsibilities out of head office to individual country and business division managers. When he created the company by merging Asea of Sweden and Switzerland's Brown Boveri he put e strong emphasis on cutting head office staff and decentralising, using methods already used at Asea, which he had run since 1980. But to keep the group from fragmenting Mr Barnevik built a matrix organisation in which managers report to e country manager and to a business area manager.

In the rush to decentralise, the group was broken into more than 60 businesses, but it has since been reorganised into 36 because some of the units were too small and overlapped too much.

Geographical expansion has brought about a rapid increase in country managers from 57 in 1990 to 94 today. There are also nine regional managers covering groups of countries where there is too little business as yet for country managers.

Mr Barnevik says that without the matrix it would have been difficult to expand so quickly. But he argues that the matrix alone does not explain the group's success in spreading to new countries. The solution is mobilising enough skilled people able to bring on staff in newly-emerging economies. Mr Barnevik says: "One of my big jobs is to strengthen the glue – to make managers feel they are part of a family." He cultivates "group-mindedness" and encourages it with praise and bonuses for those who support operations in emerging countries.

Mr Barnevik denies that he shoulders too much of this burden himself. "People say that. But with every year that passes there are more and more people who are group-minded."

That conviction stems from the fact that many of the group's most dynamic customers are located outside its traditional home in western Europe. These customers are now driving the group's growth. In the six months to the end of June, ABB reported a 22 per cent increase in net income to $556m, despite a slowdown in western Europe. Mr Barnevik says that without the business in eastern Europe and Asia, the increase "could have been zero".

Country rankings

	Rank	Company	Sector
Austria	1	VA Technology	Engineering
	2	OMV	Oil, gas & mining
Belgium	1	Solvay	Chemicals, rubber & plastics
	=2	Colruyt	Retail & distribution
	=2	Delhaize	Retail & distribution
	4	UCB	Chemicals, rubber & plastics
Denmark	1	Lego	Entertainment & leisure
	2	Novo Nordisk	Pharmaceuticals & healthcare
	3	Danfoss	Electronics
Finland	1	Nokia	Electronics
	2	UPM Kymmene	Paper, packaging/forestry
	3	Kesko	Retail & distribution
Germany	1	BMW	Automobiles/trucks & parts
	2	Siemens	Electronics
	=3	Bayer	Chemicals, rubber & plastics
	=3	Bertelsmann	Media, printing & advertising
Italy	1	Fiat	Automobiles/trucks & parts
	2	Ferrero	Food processors
	3	Luxottica	Household
Portugal	1	Sonae	Diversified holding co.
	=2	Caixa Geral de Depósitos	Banks & financial institutions
	=2	Petrogal	Oil, gas & mining
	4	Banco Comercial Português	Banks & financial institutions
Spain	1	El Corte Inglés	Retail & distribution
	2	Repsol	Oil, gas & mining
	3	FCC	Construction
Switzerland	1	ABB	Engineering
	2	Nestlé	Food processors
	3	Roche	Pharmaceuticals & healthcare
Turkey	1	Koc	Diversified holding co.
	2	Sabanci	Diversified holding co.
UK	1	British Airways	Transport
	2	Marks & Spencer	Retail & distribution
	3	Reuters	Media, printing & advertising

PROFILE ING, the banking and insurance group • By Gordon Cramb

Dutch group casts a wide net

ING Groep, which emerges as the highest-placed financial institution, is known in the City of London as the rescuer of Barings, and in dozens of developing countries as a western finance house eager to be among the first on the scene as economies open up.

Its appetite for emerging markets reflects its small bome base. Among a population of fewer than 16m in the Netherlands, ING has a quarter of the market for life policies and e financial relationship of some sort with 75 per cent of all households.

The group is the product of a merger in 1991 between Nederlandse Middenstandsbank and the Nationale-Nederlanden insurer. Since then it has also scooped up Postbank, the giro operation shed during the privatisation of KPN, the country's posts and telecommunications carrier.

China is currently its most important target market. Bank offices were edded last year in Shanghai and Shenyang, and the insurance side is seeking permission to convert its representative offices tbere into full sales branches.

In its interim results announced last month income from Asia, although still only 4.4 per cent of the total, breecbed the Fl1bn barrier. That excludes a simllar sized contribution from Australia, where the group owns Mercantile Mutual, an lnsurer on to which it is grafting banking products.

First half profits from Asia, at Fl120m before tax, are dwarfed by the Fl1.99bn harvested at home but come close to the Fl 139m the group managed from the rest of Europe. Its surefootedness in the Pacific region is backed by the experience of a decade-old life assurance presence in Japan, where premium income last year topped Fl1.1bn.

"On the insurance side, we started to build up a number of greenfield operations, and Japan was our first," says Mr Aad Jacobs, ING chairman.

"For five or six years it was very difficult to get e licence, but since then we have been very successful there . . . we have used the lessons we learnt there in Korea, Taiwan and a number of other countries like Italy, and in eastern Europe."

This need to cast its net widely reflects not only the relatively small Dutch market but also the ebsence of the "second home market" after which the group has hankered. An ettempted merger in 1992 with Banque Bruxelles Lambert of Belgium came to naught, and a large retail banking presence in western Europe looks unlikely unless an unexpected candidate presents itself.

This is in spite of its having a strong insurance presence in e number of countries, the importance of which would be enhanced by the addition, on German Allfinanz principles, of bank branches through which policies could be sold.

"We would like to have e good [banking] operation in Germany or France or Belgium but the prices [of acquisition] are so high that it is difficult to make e profit," says Mr Jecobs.


Aad Jacobs, ING chairman: China is a key target for the group

This summer ING took majority control instead at Bank Slaski, one of Poland's largest commercial banks. Slaski has 1m clients and has provided – at the relatively cheap price of Fl355m for which ING doubled its stake to 54.1 per cent – a base from which life and other straightforward insurance policies, such as motor cover, can be marketed.

"If I look at the kind of business we get from bank offices, what kind of business Postbank is doing with the insurance company for the group, if I see how we work together as bankers or investors in a number of big deals and how we are combining different cultures between bankers and insurance people, we can certainly say this was e success story," Mr Jacobs maintains.

ING's domestic banking operations, including Postbank, now bring to the group about 10 per cent of all new life policies written by the insurance division.

Such indicators of the advantage a group gains by operating in both sectors are still "not at e level we want to achieve in the long run, but they are a very important factor in our total".

The group had total assets at the end of June of Fl439.3bn, swollen by the acquisition of Barings, the London merchant bank brought to its knees early last year by the unauthorised trading of Mr Nick Leeson. Barings failed to meet initial profit targets set by the new parent, which were merely that it should make up for the interest ING would have earned had it left its £660m investment on deposit earning interest. But the group is happy with its purchase and confident of adequete retnrns this year.

The Singapore experience aside, Barings had developed a confidence in emerging market trading and asset management which provided a good match for ING's existing activities in those same economies. But in the six months to June the group as a whole earned more from Asia, Australia and Latin America than from North America, and acquiring e US investment bank has often been seen as a necessary goal.

As legal barriers separating banks and insurers break down in the US, such a mission in theory becomes easier, bnt euch e plunge may not happen in the immediate period ahead, Mr Jecobs cautions. Barings is not yet doing as well as he thinks it could, and while financial resources could ahsorb a similar entity across the Atlantic, there would be a risk of over-extending management capability.

He goes on: "We are not actively looking at candidates, but on the other hand if somebody were there – an opportunity which is one in a thousand – it would be stupid not to look at it . . . having an investment bank in the US would be e tremendous step for the ING group."

PROFILE The Bertelsmann group • By Judy Dempsey

Conflict of cultures for media giant

When Bertelsmenn, Germany's largest media and entertainment gronp and the world's third biggest, announced earlier this year that it had clinched a deal with Mr Rupert Murdoch's British Sky Broadcasting to launch a digital television channel, there were mixed reactions from the media world.


Mark Wössner, chairman: he welcomes global alliances

To some analysts, the alliance came as no surprise. Bertelsmann, joint third in the German country list of admired companies whose main strength lies in book and magazine publishing, had always wanted to join the world's biggest television groups, with perhaps an eye on eventually acquiring e stake in a Hollywood studio.

More circumspect analysts, bowever, concluded that the alliance – short-lived as it turned out – could not have lasted since Bertelsmann lacked experience in the television business. Significantly, it hed not prepared the ground sufficiently to become one of the principal groups – ahead of the Munich-hased Kirch group, its arch rival – in launching digital television in Germany.

Bertelsmann's attempts to enter Germany's nescent digital television market also exposed the contradictions within e group which has prided itself on continuing its philanthropic tradition, generously donating to foundations, and maintaining a list of high quality magazines and publishing houses.

Essentially, Bertelsmann has manoeuvred itself into e position of having to decide whether it wants to divert considereble finencial resources into expanding into multimedia and digital television, or to continue building up its impressive book and recording publishing divisions. Its conservative and cautious approach runs counter to the cutthroet world of multimedia and television. Reconciling the two culturee has not brought out the best in Bertelsmann.

Mr Mark Wössner, Bertelsmann's chairman, highlighted the dilemma that traditional media and entertainment groups face in a recent speech - confidently edding that the group could integrate botb tendencies. "A media world without traditional borders is emerging from the growing integration of previously discrete ectivities and technologies," he said.

"There is compelling reason for companies in differing industries to form global alliances as a means of mastering the market complexities inherent in the new media markets and the convergence of content, hardware and advanced forms of communications."

The recent experiences of the past year suggest, however, that the group is not prepared to meet this challenge. First, it failed to prepare the ground in consolidating the alliance with Mr Murdoch's BSkyB. "Bertelsmann was obsessed with beating the Kirch group to the digital television post. It simply did not have the expertise on the ground to cut through its own bureaucracy, speed up the decoding technology and consult its other allies," said an official from Canal Plus, the French commercial pay television channel which along with Bertelsmann and the Kirch gronp holde e stake in Premiere, Germany's pay-television network.

Secondly, eyen thougb Bertelsmann has a reputation of being an open company, it failed to keep CLT, the Luxembourg-based commercial television group which merged recently with UFA, the television arm of Bertelsmann, and Canal Plus, informed of what kind of partnership and strategy it was keen to pursue in its bid to launch digital television in Germany and become an important force in Europe.

In the event, Bertelsmann has been reluctantly forced to join forces with the Kirch group – now an ally of Mr Murdocb's BSkyB – in forming a joint decoding system for digital television. To add insult to injury, Canal Plus, frustrated with Bertelsmann's tactics, earlier this month announced it would merge with NetHold, owned jointly by Richemont, the luxury goode and tobacco business, and MIH, the South African-owned pay television company. This will create the largest television group in the world and complete the carve up of the digital television map of Europe.

The embarrassment in losing ellies as well as the financial cost of trying to launch digital television – estimated to exceed DM1bn – reveal much about a company which is trying to come to terms with the extraordinary pace of multimedie technology.

For decades, it has been able to huild up its hook publishing lists and its book clubs, the higgest in the world with 35m subscribers. Over the past few years it bas expanded into the US market, buying the prestige-leden Doubleday Dell publishing group and the New York Times magazines, the RCA recording lahel and Ricordi, Italy's big music company.

But Bertelsmann is the first to admit that these acquisitions have taken time to integrate, prompting analysts to suggest it may have diversified too quickly into tbe multimedia and digital television sector before it had consolideted its other acquisitions.

Its interim results for the 1995/96 fiscal year confirm this. Operating results fell 16 per cent. Its sales, whicb totalled DM20.5bn during the 1994/95 fiscal year are expected to reach DM21.5bn this year. But mucb attention will be focused on Bertelsmann's net income which in the last fiscal year amounted to DM815m and above all its ability to map out a coherent multimedia strategy.

Results analysis and methodology • By Geoff Dyer

A consistent pattern has emerged

New questions were introduced this year to probe the views of senior executives

This is the third year that the Financial Times and Price Waterbouse have conducted a survey to find out which are Europe's Most Respected Companies and this time a number of innovations were incorporated to enhance the range and quality of the findings.

The basic approach of the survey remains the same, however, and the results can legitimately be compared with last year's conclusions.

We sent questionnaires to companies in a total of 18 countries, the same as last year, but this time we increased the number of organisations approached from 1,097 to 1,451. In particular, we were keen to expand the level of replies from smaller countries.

The starting point for selecting the companies was *The FT 500*, published every January, whicb lists Europe's largest qnoted companies by market capitalisation.

After excluding companies that were not European-owned from this list, we expanded the sample, using a number of other databases, and included large private or state-owned companies.

To ensure that the sample bore some resemblance to the European economy, the number of companies selected from each country was based on that country's proportion of European GDP. A rough minimum of 50 companies per country was used, wherever possible.

The aim of the final sample, therefore, was to make sure that each country was fairly represented and that the companies included were sufficiently large.

We asked for responses from only one executive et each company – usually the chief executive or president – so that the replies would reflect the views of a broad range of companies. The questionnaires – which were evailable in English, French, German, Spanish and Portuguese – were filled in anonymously, so that any comments made by participants cannot be traced back to the individuals.

The first part of the survey is similar to previous years – participants were asked to name the companies they most respected in Europe, in their own country and in their own sector.

Although the sample of respondents was much larger this time, the results from these questions show a good deal of continuity with our previous surveys – from the presence in the top three, of ABB, British Airways and Nestlé, all of which have done well previously, to several of the sector and country winners.

However, as e result of the expansion of the sample this year, we have been able to include results for countries such as Austria, Belgium, Denmark and Portugal, about which it had not been possible to draw firm conclusions in the past because of the lack of sufficient information

It was in the second part of the survey that most of tbe changes were introduced. Questions asking respondants to nominate which company best displayed a series of specific management characteristics were increased from nine to 21. For instance, executives were asked to nominate the companies which had the strongest corporate brand image, were best at maximising employee potential, made the most effective use of new technology or were best at satisfying their customers.

Other qnestions asked which were the best companies at dealing with environmental issnes, et demonstrating high standards of ethical conduct in business, and which group had made tbe best-judgad recent merger or ecquisition, or had best managed the transition from public to private ownership.

This section produced some of the most surprising results in the survey, such as Shell's nomination as the company best at dealing with environmental issues.

This time we asked executives to consider all European companies in their responses to these questions, instead of asking them just to concentrate their answers on companies within their sectors, as we have done in the past.

We hope thet by encouraging executives to give views on companies outside the narrow confines of their own industry we have produced a more interesting set of findings covering a broader range of companies.

An edditional section of the questionnaire this year asked participants to comment on issues and personalities.

A further question asked what they thought was the most important issue facing Enropean business and which company was best placed to respond to that challenge, and this produced some interesting regional variations.

The results were calculated on the simple basis of votes received for each question. However we noted the country of origin of each vote to get an idea of how broadly spread the support for each company was: so while ABB, the overall winner, received votes from companies in a total of twelve countries, Air Liquide, the French chemicals and plastics group which came 14th, garnered votes from peers in only one country.

4 EUROPE'S MOST RESPECTED COMPANIES

PROFILE Ferrero, the confectioners • By Andrew Hill

Italian group's sweet smell of success

Ferrero is the company which makes the world's largest confectioners lick their lips. It is not so much the Italian company's products which invite admiration – although its Nutella spread, Kinder and Ferrero Rocher chocolates, and Tic Tac mints are among the world's best-selling sweet things – but the Italian group's ability to go on growing, at a time when most of its competitors have had their share of hard times. It is a quality which has made it Italy's second most admired company in this year's list, behind Fiat.

Last year, the Ferrero holding company – registered in the Netherlands – increased worldwide consolidated turnover by 7.3 per cent to Fl 7.23bn ($4.35bn) in a difficult market. Not surprisingly, as one food analyst puts it: "People like Cadbury would really like to get their sticky hands on Ferrero."

The frustration for fellow confectioners is that whereas Ferrero's products are marketed with style and aggression, Ferrero the company is emphatically not open to offers. The group, which celebrates its 50th anniversary this year, is as discreet as only a family-owned Italian company can be. It is entirely self-financing, has never made an acquisition, and does not publish holding company profits.

The Ferreros themselves rarely talk publicly about the company, which now claims to be one of the world's top five confectionery groups, up there with Mars, Suchard, Nestlé and Cadbury. Perhaps unsurprisingly, one of Ferrero's closest allies is that other soul of Italian discretion, Mediobanca, the powerful and secretive Milan-based merchant bank, of which the chocolate company is a core shareholder.

The group is headed by Michele Ferrero, son of Pietro, one of two brothers who launched the group in 1946 in Alba, in Piedmont, where the family owned a cake manufacturing business.

The technical key to post-war success was the invention of Pasta Gianduja – a mixture of cocoa, sugar, milk, nuts and coconut butter which cost a quarter of pure chocolate, and became

Tempting products, marketed with style

a mass-market alternative almost immediately. Within a year, Ferrero had transferred production to a larger factory and increased the number of employees from five or six to more than 50. Soon it had expanded from the surrogate-chocolate market into manufacturing the real thing, at prices which challenged Italy's traditional confectioners.

Ferrero claims the keys to success have always included strong attention to distribution and marketing – the company started almost immediately to cut out intermediaries and sell products direct to shopkeepers using its own fleet of vehicles – development of innovative new product lines, and the strong loyalty of the staff.

Workers have twice rescued the group's Alba plant from floods which submerged the production facilities. In February 1948, the factory was up and running again within 10 days. In autumn 1994, when the company was working towards the busy Christmas period, employees helped restore partial production in the much larger Alba factory within two weeks. Net profit at the Italian operating company halved to L65.6bn ($43.5m), but recovered last year to L100.5bn.

Michele Ferrero – who, with his mother, took over the full running of the group in the 1950s after the deaths of his father and uncle – began expansion into the rest of Europe as early as 1957, with the construction of a factory in Germany. In the 1970s, Ferrero pushed into the Americas, south-east Asia and Australia, and, in the 1990s, started to build its presence in eastern Europe.

Ferrero now claims to produce the best-selling praline and liqueur chocolate in Europe (respectively Ferrero Rocher, launched only in 1981, and Mon Cheri), and the world's best-selling mint, Tic Tac. As a group, Ferrero employs 14,000 people worldwide, and has 14 production plants, with new factories under construction in Poland and in Argentina.

So where does Ferrero go from here? It would be out of character for the company to join the acquisition trail, so the most likely route is expansion into new markets. Of the group's Fl 7.23bn turnover, Fl 1.8bn is made in Italy, Fl 4.57bn in the rest of Europe and only Fl 817bn in the rest of the world.

As for the possibility of the family selling out to one of those hungry rivals, that looks even less likely now that Michele Ferrero is handing more power over to his sons, both only in their early 30s.

PROFILE British Airways • By Michael Skapinker

A sophisticated offering

British Airways' position in second place behind ABB in the list of Europe's most respected companies reflects its transformation over the past decade from much-derided state carrier into one of the world's most highly-regarded airlines.

Its pre-tax profits last year of £585m were the highest of any airline. Its new first class seats, which recline to become beds, and innovations such as its business class larder make its offering one of the most sophisticated in the business.

Yet British Airways confronts an aviation world which is changing rapidly and in which it is scrambling to ensure it remains an international aviation leader.

In North America and Europe, airlines are forming global alliances, creating international networks which allow them to sell tickets for a far wider range of routes than was previously possible.

The new alliances have been prompted by the deregulation of the aviation market in the US, and now in Europe, and the entry of low-cost, no-frills carriers. Fares are expected to fall in the long-term.

Given the high cost of purchasing and maintaining aircraft to acceptable safety standards, airlines' profit margins are being squeezed. Only by attracting a higher volume of passengers can carriers ensure they have sufficient resources to invest in equipment, training and customer service.

In any other industry, this would lead to consolidation in the form of mergers and takeovers. The airline business, however, is different. Although it is a global, fast-moving business, aviation is hemmed in by the sort of government regulations which affect no other industry.

Under European Union rules airlines can only be controlled by EU nationals, although foreigners can own up to 49 per cent of their shares. The rules in the US are even more restrictive, limiting foreign ownership of airlines to 25 of the voting stock.

Until recently no international flight could take place unless the governments at both ends had agreed to it. Bilateral aviation treaties laid down the number of flights that could be made between cities in different countries and, occasionally, even the size of the aircraft that could be used.

In recent years, the US has begun to sweep away many of these restrictions, reaching "open skies" agreements with several European countries, including, earlier this year, Germany. These agreements allow airlines from one country to fly to any point in the other, without the need for government approval.

Not all restrictions have been lifted by these agreements: only US carriers may make domestic flights in the US. This gives them a substantial advantage in flying passengers to airports in large cities, from where they can be flown across the Atlantic in US carriers.

The most important outcome of these open skies agreements from BA's point of view is the formation of alliances by the airline's competitors. The oldest of these is that between KLM of the Netherlands and Northwest Airlines of the US. Another US carrier, Delta Air Lines, has an alliance with Swissair, Austrian Airlines and Sabena of Belgium. Lufthansa of Germany, British Airways' principal competitor in Europe, has teamed up with United Airlines of the US.

All these alliances have received anti-trust immunity from the US authorities. This means, in the words of one US airline executive, that "they can do things which would otherwise land them in jail".

They can, for example, co-ordinate their schedules closely, market their services jointly and share many of their facilities – acting as if they were a single airline. They can also "code-share", that is put their two letter flight codes on each other's flights and sell tickets on them as if they were their own. This means that Lufthansa, for example, could sell a ticket from Frankfurt to a small US city that it does not serve. On the US leg of the journey, the passenger will travel on a United flight.

British Airways believes that alliances of this sort pose a threat to its position as Europe's leading airline. Mr Robert Ayling, its chief executive, says that, increasingly, competition will be between aviation networks rather than between airlines.

Earlier this year, British Airways announced plans for an alliance with American Airlines. The two plan to co-ordinate their flights and share revenues from their transatlantic flights.

The US government has said that the alliance can only be put into effect, and be granted anti-trust immunity, when the US and the UK have concluded an open skies agreement. This has so far proved difficult, with the US demanding greater access for its carriers to London's Heathrow airport.

The alliance has been strongly opposed by Virgin Atlantic of the UK and most large US carriers on the grounds that it will have too big a share of the transatlantic air market. However, the two carriers say they have substantial support from US air travellers.

A survey carried out for American among international business travellers found 83 per cent thought the BA-American alliance was a good idea and 69 per cent said it would help to make international travel easier.

□ Among other results in the survey, Mr Richard Branson's Virgin group scores well for ensuring customer satisfaction and maximising employee potential.

It does best, however, in the rankings for innovation, winning first place ahead of ABB, Benetton and British Airways.

■ Competitive advantage • By John Wright

Survival through differentiation

The pace of change is unrelenting. The world continues to get smaller through transportation and, more importantly, telecommunications. The OECD countries have a high standard of living but high wage rates. Meanwhile, protective tariff barriers continue to fall away, increasing competition from low wage economies.

The survey showed that 44 per cent of respondents saw competition, particularly from south-east Asia, as the leading issue. Competitive edge, whilst partly a matter of price, is also about giving the consumer what he wants. Consumer sovereignty is in the ascendancy and spreading.

How then should companies position themselves to maintain a competitive edge? Good ideas, whether cost-reduction, production or marketing innovation, provide a market lead for a time, but constant change is unavoidable.

As far as cost-reduction is concerned, business process re-engineering, adopting best practice, and outsourcing are increasingly commonplace. But in many countries there is an important contribution to the industry cost base which only governments can make available.

Energy, transport and telecommunications are large business costs. Yet, in some countries these are in the hands of monopolists. Governments may sometimes be tempted to put the interests of those monopoly companies ahead of the economic well being of their countries as a whole, and particularly of the companies which are the wealth creators.

Full competition in these industries is not only desirable but essential. In the UK, for example, de-regulation of the telecommunications sector is bringing more choice and reduced bills to both business and residential customers. And while British Telecom has shed significant numbers of staff, liberalisation has introduced more than 150 new operators in the UK, and created many thousands of new jobs.

Taking out costs, whether company or Government-led, is only part of the equation. What will determine competitive edge – and drive the income line?

In short, differentiation through innovation – innovation to do things differently, to take a step ahead of competitors, to recognise market niches, innovative products, novel structures for the industry, and better marketing routes to customers.

The size of these steps may be increasing so that some businesses find themselves stranded. Businesses may take very different structures and shapes. Business leaders could, however, ask themselves two things:

□ What is my business's core skill which needs to be preserved? What are my core products and how do I keep ahead?

□ How do I best manage those areas which are essential to my business but where I may not have a competitive edge?

The changing shape of utilities is an interesting example of this. There is growing evidence on both sides of the Atlantic that the monopoly business of running pipes and wires could become fully divorced from the business of retailing the commodity, particularly gas and electricity.

In particular, as a retailing activity, it could fall into the hands of retail specialists who have a large customer base. In the UK, two supermarket chains have already made public their intention to enter into the supply of electricity. That packaging of the commodities with supermarket retailing might expand to cover financial services, multimedia and communications.

Alternatively, it could be telecom operators, banks or credit card companies which have the solutions. While the shape of some companies may change in unexpected ways, others have a core business and skills which are likely to evolve and expand horizontally.

For example, the survey leader, ABB, has a business based on the wholesale or trade provision of engineering products where competitive edge is achieved through recognised engineering abilities (and with it, brand name).

A fundamental feature of maintaining competitive edge, in addition to the adoption of best practice, is the reliance on innovation, whether through R&D in product development or through full recognition of what the core business and skills are, and hence the evolutionary threats and opportunities.

John Wright, is a partner with Price Waterhouse, London.

PROFILE El Corte Inglés, Spanish retail group • By Tom Burns

Popular landmarks

Big towns in Spain have four landmarks: the cathedral, the city hall, the bullring – and the Corte Inglés store. Spaniards spend a lot more of their time in the fourth landmark than in the other three put together – perhaps explaining why it is Spain's most admired company.

With a turnover in its last financial year of Pta1,015bn $2bn) and net profits of Pta33.5bn, El Corte Inglés is by far the largest privately-owned business in Spain, and with the biggest marketing budget in the country, dominates domestic advertising and ensures total awareness of its presence.

For many Spaniards, the chain's large department stores constitute one of the main reference points in their lives. The Corte Inglés is the first choice for about-to-be-weds when they draw up their wedding gift list. Likely as not the chain's travel department will organise their honeymoon and its interior decorating unit will advise on the fittings of their new home.

An important part of the Corte Inglés business formula is to provide virtually every consumer product. The same large store contains high fashion and basic household goods, high-tech equipment and groceries. It is a large emporium strategy that sells right across the social scale. The tested formula of selling everything to everybody, with a fast delivery service and a money-back guarantee, is peculiar to Spain and it has built tremendous customer loyalty.

There is probably better value elsewhere and better quality as well, but the Cortes Inglés combination of quality and value is firmly imprinted on the minds of domestic consumers. The strength of this perception, together with the extraordinary range of customer services and the availability of goods, is one explanation for the store chain's success.

Another is its extraordinary promotional energy. Every year is punctuated by a succession of special thematic weeks in which the Corte Inglés stores promote the products of a given country or sector, or, as in the case of its Spring and Autumn fashion promotions, the change of a season.

Sales at the Cortes Inglés are media events and so are its Christmas decorations. Children are drawn to Cortes Inglés stores at Christmas like moths to a light bulb because several stores around the country set up mini amusement parks in adjacent plazas.

No Spaniard is ever very far from the Corte Inglés. Last year the company bought a rival domestic chain, Galerias Preciados, adding a further 28 large stores to the 32 it already operated and establishing itself in 13 cities where it was not previously present.

The acquisition was in itself testimony to the Corte Inglés' financial muscle – a strength that is all the more remarkable because the 60-year old business has always financed development out of its own reserves.

The Corte Inglés paid Pta30bn for Galerias Preciados in June last year and spent a further Pta50bn revamping its rival's stores in order to relaunch them under its own logo in time for the Christmas buying spree six months later. Ownership of Galerias had changed hands six times since the late 1970s and, with its management adrift, it had run up accumulated losses of Pta39bn since 1989.

With Galerias under its belt the Corte Inglés has gained more than an increased market share. The takeover has now allowed it to experiment with specialised stores in big cities such as Madrid, Barcelona and Valencia where both chains formerly competed, often with big stores on the same street.

Although the Corte Inglés will maintain its giant emporium formula in most of its large stores it intends to move into market segmentation, as developed by US retailers such as Toys R Us and known in the retail industry as "category killers".

The Corte Inglés is no stranger to specialisation and it is a nimble follower of retail trends. The company has built up a unit called Hipercor with 12 large out-of-town sites spread around the country to compete with the main hypermarket groups.

The final factor behind the success of the Corte Inglés is tight management and a pronounced corporate culture. The company is owned by a foundation that was set by its creator Mr Ramón Areces, who returned in the 1930s with enough savings from a spell in Cuba as a youth to open a small drapery shop in Madrid.

Since the death of the publicity-shy Mr Areces in 1989, the company is run by his no-less-reclusive nephew, Mr Isidoro Alvárez.

The Corte Inglés prides itself on the continual training programmes, fringe benefits and incentive schemes that it provides for its more than 50,000 staff. Most of the company's executives have worked their way up from the sales floor.

Most admired attributes

[illegible] performance		
ABB	Swe/Switz	Engineering
British Airways	UK	Transport
Nestlé	Switzerland	Food processors
BMW	Germany	Automobiles
Bertelsmann	Germany	Media, printing & advertising
British Petroleum	UK	Oil, gas & mining
Effective corporate strategy		
ABB	Swe/Switz	Engineering
British Airways	UK	Transport
Nestlé	Switzerland	Food processors
BMW	Germany	Automobiles
Reuters	UK	Media, printing & advertising
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
Impressive improvement in performance		
British Airways	UK	Transport
British Petroleum	UK	Oil, gas & mining
ABB	Swe/Switz	Engineering
Philips	Netherlands	Electronics
ASDA	UK	Retail & distribution
Ericsson	Sweden	Electronics
ING	Netherlands	Banks & financial institutions
Strongest corporate brand image		
BMW	Germany	Automobiles
Nestlé	Switzerland	Food processors
British Airways	UK	Transport
ABB	Swe/Switz	Engineering
Daimler	Germany	Automobiles
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
Maximum long-term value to shareholders		
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
ABB	Swe/Switz	Engineering
Nestlé	Switzerland	Food processors
Roche	Switzerland	Pharmaceuticals
Glaxo-Wellcome	UK	Pharmaceuticals
SAP	Germany	Computers, office equip.
VEBA	Germany	Oil, gas & mining
Maximises potential of its employees		
ABB	Swe/Switz	Engineering
British Airways	UK	Transport
Bertelsmann	Germany	Media, printing & advertising
Marks & Spencer	UK	Retail & distribution
Nestlé	Switzerland	Food processors
Unilever	Netherlands/UK	Food processors
[illegible] satisfying its customers		
British Airways	UK	Transport
Marks & Spencer	UK	Retail & distribution
BMW	Germany	Automobiles
Virgin	UK	Transport
Daimler	Germany	Automobiles
Reuters	UK	Media, printing & advertising
ABB	Swe/Switz	Engineering
[illegible]		
British Airways	UK	Transport
Marks & Spencer	UK	Retail & distribution
ABB	Swe/Switz	Engineering
Nestlé	Switzerland	Food processors
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
BMW	Germany	Automobiles
Siemens	Germany	Electronics
[illegible]		
British Airways	UK	Transport
BT	UK	Telecoms
PowerGen	UK	Electricity & water
KPN	Netherlands	Telecoms
Repsol	Spain	Oil, gas & mining
BAA	UK	Transport
[illegible] or acquisition		
Novartis	Switzerland	Pharmaceuticals
Glaxo-Wellcome	UK	Pharmaceuticals
BMW	Germany	Automobiles
Granada	UK	Entertainment & leisure
Rentokil	UK	Diversified holding companies
ABN Amro	Netherlands	Bank & financial institutions
Fortis	Bel/Neth	Insurance
ING	Netherlands	Banks & financial institutions
Most innovative in its business approach		
Virgin	UK	Transport
ABB	Swe/Switz	Engineering
Benetton	Italy	Household textiles & clothing
British Airways	UK	Transport
Nokia	Finland	Electronics
SAP	Germany	Computers, office equip.
Most effective use of technology		
Nokia	Finland	Electronics
Reuters	UK	Media, printing & advertising
Ericsson	Sweden	Electronics
ABB	Swe/Switz	Engineering
BMW	Germany	Automobiles
Siemens	Germany	Electronics
Philips	Netherlands	Electronics
SAP	Germany	Computers, office equip.
[illegible]		
Marks & Spencer	UK	Retail & distribution
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
ABB	Swe/Switz	Engineering
Nestlé	Switzerland	Food processors
Body Shop	UK	Retail & distribution
British Airways	UK	Transport
Bayer	Germany	Chemicals, rubber & plastics
Bosch	Germany	Automobiles
Volvo	Sweden	Automobiles
Swissair	Switzerland	Transport
Unilever	UK/Netherlands	Food processors
[illegible]		
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
Nestlé	Switzerland	Food processors
British Petroleum	UK	Oil, gas & mining
ABB	Swe/Switz	Engineering
CIBA	Switzerland	Pharmaceuticals & healthcare
ICI	UK	Chemicals, rubber & plastics
[illegible]		
ABB	Swe/Switz	Engineering
British Petroleum	UK	Oil, gas & mining
Royal Dutch Shell	Netherlands/UK	Oil, gas & mining
British Airways	UK	Transport
Reuters	UK	Media, printing & advertising
Siemens	Germany	Electronics
Marks & Spencer	UK	Retail & distribution

Continued from page 1

Benetton of Italy, respected for innovation, Spain's Repsol, whose privatisation is judged a success, and El Corte Inglés, a Spanish retailer admired for balancing the interests of shareholders, employees and customers.

Some of the detailed findings confirm national business stereotypes. Germany is strongly represented in engineering and chemicals, while the most highly ranked European companies in aviation, retailing and information services are all British.

A number of UK companies, including BA, BP, and Marks and Spencer, perform well on criteria normally associated with the kind of long-termism for which German companies have traditionally been renowned.

That suggests that negative perceptions of Anglo-Saxon capitalism as irredeemably "short-termist" are waning – a point reinforced by the high regard in which many European managers now appear to hold US companies.

Furthermore, the successful "stakeholder" company is no longer viewed predominantly as a German phenomenon. Indeed, the list of companies judged to balance best the interests of shareholders, employees and customers is headed by BA and Marks and Spencer.

Though companies such as Nestlé, BMW and Siemens also score highly on this measure, Air Liquide and L'Oréal of France, Astra of Sweden, Body Shop, BP, Rentokil, Reuters and Tesco all obtain honourable mentions.

By definition, most of the survey's findings are based on perceptions of past performance. But what of the future? Asked what they considered the biggest challenges facing European business, almost half the respondents named competition, particularly from the Far East, and pressure on costs.

Roughly a fifth singled out regional issues, such as European monetary union and the growth of protectionism in Europe, while almost as many picked on the globalisation of markets.

No one company is perceived as best-placed to tackle all these challenges. However, BA, Shell and Nestlé are all rated highly for their ability to deal with cost pressures, while ABB is considered the best bet to handle the implications of globalising markets.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday September 18 1996

IN BRIEF

Mexico set to redeem Bradys

The proceeds from Mexico's latest issue of global bonds – which go on sale today and tomorrow – will be used to redeem existing Brady bonds, finance ministry officials said.

The $1bn issue of 20-year paper will allow the country to buy back Bradys worth $1.24bn – because the bonds trade at a discount to their nominal value. Bradys were issued to replace distressed debt in 1990 and are guaranteed by holdings of US Treasury bonds.

Investors' appetite for debt from the emerging markets is high, allowing these issuers to borrow at moch lower interest rates. Mexico will pay yearly interest on the new bonds at about 4.5 percentage points above the rate paid on US Treasury bonds. This will allow the government to save $115m in interest payments. When Mexico issued 30-year global bonds in May, it had to pay 5.5 percentage points more than the interest on US Treasuries.

Finance officials also said $410m of collateral, previously held as a guarantee on the Brady bonds, will be used to retire short-term debt. Page 24

Weak trading hits Nikko forecast
Nikko Securities, one of Japan's Big Four brokers, slashed its interim and annual earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange hit commission revenue. The broker said it now expected Y20bn ($181m) in unconsolidated recurring profits – before extraordinary items and tax – for the first half to September, down 22 per cent from the previous year. Page 20

Generator aims to lift its market rating
National Power, Britain's biggest electricity generator, will today begin a campaign to improve its stock market rating at a day-long presentation to 70 institutional investors and analysts. Page 23

Pathé warns of second-half decline
The chairman of Pathé, the French media group formed out of the demerger of the Chargeurs conglomerate earlier this year, warned that second-half profits would be well below those for the first six months. Page 19

Contracting lifts Taylor Woodrow 81%
Improved performance from UK contracting helped Taylor Woodrow, the construction and property group, increase pre-tax profits from £14m to £25.4m ($39.6m) in the six months to June. The result included a £2m charge to cover the cost of closing Myton, the group's refurbishment business, after an £8.3m restructuring charge last time. Page 28

Tesco stays ahead as profits rise
Tesco consolidated its position as the UK's most popular supermarket chain in the first half of the year, as pre-tax profits rose 12 per cent and like-for-like sales accelerated in the second half. Page 22

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Porsche	1045	+	12
Puma	600	+	19
Falls			
Allianz	1128	-	14
BHF	97.50	-	2.50
Hoftmann	342	-	8
Kaufhof	537	-	8
NEW YORK ($)			
Rises			
Nova Corp.	33¼	+	3¼
Selection	47	+	5
Stan Union	24	+	2¼
Falls			
Dell Direct	36⅞	-	2¾
Manpower	30⅝	-	3¼
Pet Fresno	25⅛	-	2¾
LONDON (Pence)			
Rises			
Elementis	51½	+	23
Vymura	155	+	22
Falls			
Cable Imag	120½	-	5
Exco	86	-	21
Treats Grp	100½	-	34
Walbrook Esc	86½	-	19½
TORONTO (C$)			
Rises			
Alphanet Tel	21.50	+	2.25
Goldstake Expl	3.50	+	2.41
Luxmar Grp	53.80	+	7.30
Scorpion Min	8.90	+	0.95
Falls			
Northern Tech	7.50	-	0.60
TLC Laser Ctr	7.00	-	0.80
PARIS (FFr)			
Rises			
Canal Plus	1155	+	20
Falls			
BIC	737	-	4
Bongrain	2315	-	25
Comp Modernes	2304	-	25
Eridania B-Say	760	-	17
LVMH	1130	-	36
TOKYO (Yen)			
Rises			
Amada Corp	1030	+	66
Chiyoda	1180	+	60
Noritake	1080	+	60
Takashimaya	1380	+	60
Tokyo Dome	2180	+	60
Toyota	2780	+	60
HONG KONG (HK$)			
Rises			
HK Ferry	11.85	+	0.45
Lai Sun Dev	8.50	+	0.30
Nat Mutual	8.50	+	0.30
Falls			
U I Fung	6.65	-	0.32
Magician Ind	2.05	-	0.11
SCMP (Hldgs)	5.25	-	0.25
JOHANNESBURG (Rand)			
Rises			
Foschini	115.00	+	9.00
General Eng	26.75	+	2.25
Inti Bowl Co	22.50	+	4.50
Leisure Quest	215.00	+	15.00
Tiger Brands	62.00	+	5.00
Tiger Brush			
Falls			
Carpets Intr	55.50	-	7.50

New York & Toronto prices at 12.30.

Telekom predicts DM6bn profit

By Michael Lindemann in Bonn

Deutsche Telekom, Europe's largest telecoms group, which is due to be partially privatised in November, yesterday forecast 1996 operating profits of more than DM6bn ($4bn). It said it was gradually reducing its net debts of DM98bn, a figure which ranks the company among the top 25 debtors in the world.

Mr Ron Sommer, chief executive, said the company's net debts would be cut to about DM60bn by 2000, reducing interest payments as competition picks up after the German telecoms market is fully liberalised in 1998.

Interim results, reported yesterday for the first time ever and just weeks before the privatisation, reflected provisions needed to clean up the group's balance sheet ahead of the stock exchange listing, Mr Sommer said.

Group net profits for the first six months were DM129m, 96 per cent lower than last year's figure of DM3.5bn. The sharp decline, he added was due to a one-off charge of DM1.8bn to cover the costs of redundancies. At present Deutsche Telekom employs 207,000 people, but it has said it will reduce its workforce to 170,000 by 2000.

Sales in the first half fell 5.9 per cent to DM30.5bn, compared with DM32.5bn last year. They rose, however, 1.5 per cent when adjusted for extraordinary items and are forecast to reach DM62bn for the full year, because, the company said, turnover is traditionally DM1bn higher in the second half.

Deutsche Telekom's total liabilities, including its stake in the Hungarian telecoms operator Matav, now stand at DM107bn.

However, Mr Joachim Kröske, finance director, dismissed charges that the debt would weigh down Deutsche Telekom's results in coming years.

Mr Kröske said the company generated cash flow of DM12.5bn in the first six months, similar to last year, and would be able to reduce its debts significantly, partly because larger capital investments, like those in eastern Germany since 1989, would not be made in future.

Deutsche Telekom is still in talks with France Télécom, with whom it has an international alliance, about the possible sale of a stake to the French group.

Mr Sommer said a final decision about an equity swap between the two had not been taken, and analysts suggested that, if it happened, it would probably take place after France Télécom's partial privatisation next spring.

Lex, Page 16; Still to convince on debt, Page 18

SGB to raise stake in Tractebel

By Lionel Barber in Brussels

Société Générale de Belgique, Belgium's biggest holding company, yesterday agreed to raise its stake in Tractebel, the fast-growing Belgian energy group, from 40 to 65 per cent in a deal valued at BFr49bn ($1.6bn).

The move followed an announcement that Baron Albert Frère, chairman of Groupe Bruxelles Lambert, Belgium's second biggest holding company, had approached SGB and offered to sell the 20.3 per cent Tractebel stake held by Electrafina, GBL's energy subsidiary.

SGB snapped up a further 4.29 per cent of Tractebel held by Royal Belge, the insurance group, at the same price of BFr14,500 a share.

The deal will intensify interest in the future of GBL which is keen to develop its media interests, which include CLT, the Luxembourg broadcaster.

CLT recently merged its television interests with Bertelsmann's Ufa to create a company big enough to exploit the growth potential in digital television.

Under the deal, Tractebel's importance inside the SGB holding company would increase from 27 per cent to 40.7 per cent. This would be more than double the stakes in Generale de Banque of 18.4 per cent and the 12 per cent stake in Fortis, the insurance company.

The offer will remain open to Tractebel shareholders between October 9 and October 30, subject to approval of the Belgian banking and finance commission.

In addition, SGB will offer free warrants with a buy-back provision extending to November 1999 at the same price of BFr14,500 per share.

The SGB offer stands at a premium over Tractebel's closing price last night of BFr14,100.

Viscount Etienne Davignon, president of SGB, defended the premium on the grounds that Tractebel shares were undervalued on the stock market. He said: "Our increased participation [in Tractebel] fits in with our general strategy."

He stressed that SGB was under no obligation to make a full public offer for Tractebel because it had enjoyed de facto control of the energy group since 1989.

Foreign groups line up for Brazil telecoms sale

By Jonathan Wheatley in São Paulo

Telecommunications groups from Europe, Asia, Latin America and the US are preparing to bid in late November for a 35 per cent stake in Companhia Riograndense de Telecomunicações (CRT), a regional operator controlled by the state of Rio Grande do Sul in southern Brazil.

The sale will transfer operational control of CRT to a partnership of the buyer and the state government and marks the first step in the privatisation of Brazilian telecoms.

The federal government hopes to sell concessions to operate cellular services early next year and to privatise 27 conventional operators by the end of 1998. The CRT sale can happen sooner because it is the only telecoms group controlled by a state government.

"This is the first opportunity for a partnership between foreign capital and the public sector in Brazilian telecommunications and its success will be very important for future privatisations," said Mr Adolfo Rinaldi, director in Brazil of the Italian state operator Stet – one of 11 foreign groups in the six consortia to submit prequalification documents by last weekend's deadline.

Stet leads a grouping consisting of Perez Companc of Argentina; Brazilian construction group Camargo Corrêa; and Bradesco, Brazil's biggest private sector bank.

The other bidders are: France Télécom and Brazilian partners Banco Opportunity, Banco do Brasil Investimentos and four local pension funds; Korea Telecom of South Korea with local construction group Odebrecht, Brazilian bank Unibanco and media group Folha de São Paulo; Telefónica Internacional of Spain, CTC of Chile, Telefónica de Argentina, Citicorp of the US and local investment group RBS Participações; Nippon Telegraph and Telephone and the Itochu Corporation of Japan and local conglomerate Cia Suzano de Papel e Celulose; and GTE International of the US.

"This is an important strategic opportunity," said Mr Bruce Haddad, GTE's Latin America vice-president. "CRT offers a key pathway to other countries in the region, its area is contiguous with Uruguay and Argentina, where GTE has a strong presence, and it provides accelerated entry to the Brazilian market."

Telephone penetration in Rio Grande do Sul has risen from 7.5 to 10.5 lines per 100 inhabitants in the past year but remains below the Brazilian average of 13.5.

Mr Assis Roberto de Souza, Rio Grande do Sul communications secretary, hopes bids will be opened on November 28. Telefónica chases Romanian GSM deal, Page 19

Prince courts new deal

Picture: PA
Prince, the artist formerly with Warner Music, has offered his services to several leading record companies. Report, Page 21

Samsung plays down hopes for Fokker deal

By John Burton in Seoul

Samsung, South Korea's biggest conglomerate, yesterday played down hopes it was about to acquire Fokker. It denied it had signed a letter of intent to purchase the bankrupt Dutch aircraft manufacturer and said it had only notified the Seoul bourse of the possibility of a takeover.

Samsung's confirmation on Monday that it had filed a disclosure statement with the Seoul bourse had led to speculation that a deal was near.

But it said a number of issues were unresolved, including talks with the South Korean government on possible state support for the takeover. "This is not a private initiative, but one that is being conducted in co-operation with the [Korean] government."

Its renewed interest in Fokker marks the latest attempt by Korea to create a national aerospace industry.

Fokker collapsed in March after Samsung failed in a previous attempt to rescue the lossmaking company.

Nonetheless, Samsung was optimistic that a deal for Fokker could be concluded. "We believe the outcome this time will be more favourable than the last," it said.

A purchase of Fokker is viewed by Samsung and the Korean government as an alternative to an aborted state-sponsored Sino-Korean project to build a 100-seat regional jet. The programme, announced in 1993, had been seen in Seoul as the foundation for the country's entry into civilian aircraft manufacturing.

The Korean government has designated aircraft manufacturing as a next-generation strategic industry, which would reduce imports of aircraft from the US and Europe.

But the project was bedevilled by disagreements and in June Korea was excluded from it after a dispute over whether the assembly facility should be located in China or Korea.

The possibility that the Sino-Korean project would collapse had sparked Samsung's previous interest in Fokker, which it viewed as a source of technology and equipment.

But some question the wisdom of Samsung competing in an industry that is already considered crowded.

The Korean market is too small to sustain aircraft production by Samsung, although it is believed to be interested in starting a domestic airline.

Sales to such key Asian markets as China, Taiwan and Singapore are seen as doubtful as these countries are participating in the project from which Korea was excluded.

Aircraft production would also increase the financial burden for Samsung at a time when its main business of semiconductors is suffering from sharp profit falls.

Barry Riley

London's pension fund Europhiles revealed

Rarely can the conditions for the main stock markets have seemed so sublime, at least before the US Federal Reserve's interest rate decision next week. It would seem churlish to suggest that this stock market strength is being generated by an unhealthy combination of cheap money and ballooning government debt, in Europe and Japan.

The markets are simply going up, with London's Footsie Index approaching 4,000 and New York's Dow Jones Average within striking distance of 6,000. There remains the niggling problem, though, that the valuation basis of equities globally is veering right off the top of the screen.

It is a good time for an update on how UK pension fund managers are adjusting to these challenges. The same basic judgments probably apply to most of the UK-based global equity managers.

Mid-year figures from the two measurement services, WM and CAPS, show that 2 per cent of the portfolios were taken out of UK equities in the half-year, mostly being transferred into continental Europe. US exposures were run down still further, to only 2 or 3 per cent of the portfolios for the smaller, more aggressive funds.

Overall equity exposure has dipped only slightly, and that decline may have been merely an involuntary response to the UK's stream of buy-backs and special dividends. Cash had drifted up to 6 or 7 per cent by June 30, no doubt providing some of the fuel for the subsequent upward breakout by the markets.

Bonds have attracted little new money, although some of the big funds have raised their holdings of index-linked gilts for liability matching reasons.

Overall, then, there is no sign of risk aversion after the 20 per cent-plus returns in most of the main equity markets during the year to June. If managers are getting nervous, then it appears to show only in that their one-year returns are clustered close to the median to an even greater than normal degree.

UK-based institutions are positive about all the main markets except Wall St

An analysis by the UK pension consulting arm of Coopers & Lybrand indicates that the pooled funds of the leading managers have huddled closely to the CAPS median fund return (of about 18 per cent) during the past 12 months.

There are two notable outliers: PDFM, which has underperformed by about 6 per cent and Fidelity, which has outperformed by almost 8 per cent. These pooled funds may not perform precisely in line with segregated client portfolios, but they give a clue to each manager's strategy and style.

PDFM is London's uncompromising (and currently battered) defender of value. This style has paid off handsomely over the long run, but recently PDFM has been very underweight in equities and it is underexposed to growth stocks. Fidelity, in contrast, worries little about strategy or absolute value, but happily chases individual stocks which promise pleasant surprises. In bull markets they very often do – but in weak markets it can be a different story.

September's Merrill Lynch fund manager opinion survey shows that UK-based institutions remain positive on a one-year view about all the main stock markets except Wall Street. But in the first six months the average pension fund return on overseas equities of 9.4 per cent continued to be damaged (although less than in 1995) by the underweighting of Wall Street, which knocked off about 30 basis points. On the other hand the overweighting of continental Europe added about the same in January-June.

Fine tuning apart, however, attitudes remain entrenched. The idea that equities may be less attractive at 20 per cent higher prices than a year ago, or 100 per cent higher than four years ago, plays no part in the thinking of most institutional investors.

But as the bull market reaches its final stages they may judge it wise to minimise their business risks by tracking the median strategy, whatever the investment risks their clients may continue to bear.

Eni buoyed by reduction in financial charges

By Andrew Hill in Milan

Eni, the Italian oil, gas and chemicals group, yesterday reported a net profit of L2,376bn ($1.55bn) for the six months tn June 30, an increase of 5 per cent on the first half of 1995, allowing for accounting changes.

In the first half last year, Eni reported net profits of L2,615bn. However, it has since adopted a new US accounting standard which reduced this year's figure by L382bn. Eni said yesterday its interim results had benefited from a 31 per cent year-on-year reduction in financial charges. In the first six months of 1996, net financial debt came dnwn frnm L17,795bn to L15,078bn.

Turnover in the first half fell 4 per csnt from L30,801bn to L29,444bn, and operating profit, before applying the new accounting standard, slipped from L6,253bn to L5,970bn.

Eni was held back by the cyclical downturn in the petrochemicals sector, which contributed L303bn of operating profit, compared with L1,332bn in the first half of 1995.

The impact of falling prices and demand was exacerbated by the appreciation of the lira, Eni said.

Exploration and production generated operating profit of L2,688bn, against L2,611bn in tha equivalent period, whila natural gas activities lifted operating profit to L2,435bn from L2,064bn. Refining and marketing increased operating profit by 41 per cent to L405bn from L288bn in the first half of last year, mainly because of improved margins in marketing.

The immediate reaction of some analysts yesterday was disappointment that the net profit was not higher, and that operating profits from exploration and production were lower than expected. The company pointed out that for technical reasons it had sold 1.1bn cubic metres less natural gas in Italy.

The Italian treasury is expected to outline terms for the sale of further shares in Eni within the next few days.

A first tranche of 15 per cent was sold in a public offer last November, in the biggest Italian privatisation issue ever, and a further trancbe of about the sama size should he sold next month. Mr Mario Draghi, director-general of the treasury, said last week the new issue might include incentives for small shareholders.

Deutsche Telekom still to convince on debt

Deutsche Telekom first-half results

	1996 first half DM	1995 first half DM	% change
Sales	30.63bn	32.55bn	-5.9
Operating profits	2.71bn	5.43bn	-50
Extraordinary losses	1.84bn	285m	546
Net profits	204m	3.51bn	-94.2
(Profit)* loss applicable to minority shareholder	75m	1m	n/a
Group net profit	129m	3.51bn	-96.3

Source: Deutsche Telekom interim report

Ron Sommer (right) yesterday, with company spokesman Jürgen Kindervater: expects debt at DM60bn by 2000 Reuter

The best bit of news for investors thinking abont buying Deutsche Telekom shares was not trumpeted very loudly when the German telecoms group released its first set of six-month results yesterday.

During a presentation at its plusb headquarters in Bonn, the group declined to say how quickly it would be able to reduce its net debts of DM98bn ($66.2m) – a debt mountain that cost DM3.7bn to service in the first six months alone, and is so large that it could yet eclipse Europe's largest initial public offering of shares.

Privately, however, Mr Ron Sommer, chief executive, has said that he expects debt to fall to about DM60bn by 2000. Cash flow in the first half was DM12.5bn.

That is still significant, but if Deutsche Telekom can significantly reduce its debts by 2000, it will have freed funds which are likely to be badly needed to fend off competitors in Europe's largest telecoms market.

To date, only segments of the German market such as mobile communications have been opened to competition but, in recent years, that alone has cost Deutsche Telekom up to 2 per cent of its market share annually, Mr Sommer said yesterday.

Full liberalisation, moreover, is not far off and will allow an unlimited number of operators into the German market after January 1 1998.

Few analysts expect those nawcomers to make big inroads immediately, even though several of them, such as AT&T of the US and British Telecommunications, are hardly newcomers to telecoms.

By 2000, however, they will have got the hang of the telecoms game in Germany and could – if an aggressiva regulatory regime is in place – be making significant inroads into Deutsche Telekom's 42m client base.

How the group will perform in the face of that competition – and what sort of dividends shareholders could expect as a result – remains a guessing game.

For one, Dautscha Telekom's personnel costs – the highest of any telecoms operators in Europe – are falling and are set to drop further as another 37,000 jobs are shed by 2000.

Like the debt, however, those costs may not be falling fast enough. In the first six months, fewer of the more expensive civil servants left the company than cheaper workers.

While Deutscha Telekom will not create any new civil servants, analysts say that the group still runs the risk of having a workforce which is considerably more expensive than those of its competitors.

Just how much more expansive that workforce could be was underlined by Mr Joachim Kröske, finance director, wbo pointed out yesterday that the civil servants – who still make up 50 per cent of Deutsche Telekom's workforce – are 10 per cent more expensive than other executives when it comes to pension plans.

The good news, meanwhile, suggests that the German telecoms market is taking well to a number of new services. Subscriptions for online services and ISDN (the broad band telecoms natwork needed for interactive services) are up sharply and look set to continue their npward trend: online subscriptions alone have doubled from 14m to 28m during the last year.

It is these new businesses which Mr Sommer, the one-time Sony executive, has targeted in order to expand his sales in the face of the growing competition.

Given that he already has the world's biggest ISDN network and 16m clients hooked up to the world's biggest cable television network, he is clearly not starting with an empty hand.

Bnt whils Mr Sommer focuses on potential new services, analysts and investors are still focusing on the old debt mountain.

Convincing them that this debt is manageable looks to be his most difficult task.

Michael Lindemann

Michelin solid at operating level

By David Owen in Paris

Michelin, the French tyremaker, yesterday reported a decline of 11 per cent in first-half net profits, from FFr1.51bn to FFr1.35bn ($262.5m), after making a FFr709m exceptional provision for its Spanish operations.

Operating profits, by contrast, were ahead more than 30 per cent, propelled by lower production costs and a 2 per cent improvement in average selling prices. Turnover rose 5.4 per cent, from FFr33.11bn to FFr34.91bn.

This, together with the group's upbeat outlook for the balance of the year, is what the market appeared principally to focus on, and the shares rose strongly to end tha day at FFr265.20 - a gain of FFr5.10, or 2 per cent.

"Michelin is showing the benefits of being a really international company," said Mr Patrice Solaro, an analyst with Cheuvreux de Virieu, the French stockbroker. Cheuvreux yesterday added the Clermont Ferrand-based company to its top 10 list of stocks.

Operating profits were up from FFr2.76bn to FFr3.62bn. An exceptional charge of FFr728m was taken, relating mainly to the restructuring at Neumáticos Michelin, the group's Spanish subsidiary.

The company said the shake-up would mean job cuts at the unit of 1,000, to between 8,000 and 9,000. The programme would run for three or four years, starting in 1997.

Thougb the charge surprised analysts – and prompted some to revise down their full-year profit forecasts – it did not affect the generally favourable response to the results.

"What is very interesting is that the company expects to get the cost of the provision back within two years," said Chenvreux's Mr Solaro.

"If they had adopted the same measures in any other European country, they would not have had to pass a provision."

In the first half of 1995, the group made an exceptional gain of FFr221m from the sale of buildings and property in Singapore.

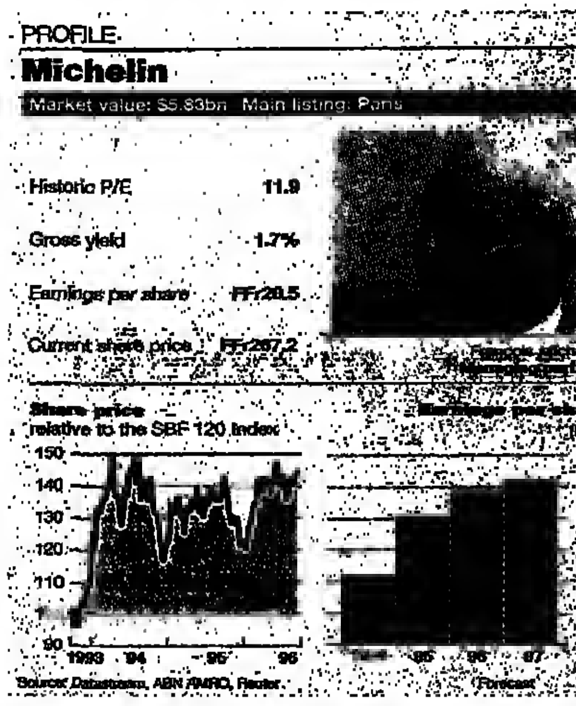
Commenting on the second-half outlook, Michelin said global activity in its markets had held up well in the summer and should reach "a satisfactory level" over tha full year.

It said reduced costs would continue to play "a favourable role". The company was on track to "confirm the progress it had made since 1994".

Mr Eric Bourdais de Charbonnière, finance director, said: "We have never sold as many tyres at Michelin as in the first half of 1996."

The company said net debt had risen from FFr21.6bn on June 30 1995 to FFr23.2bn a year later.

Its net debt to equity ratio was 121 per cent, or 197 per cent if FFr4.9bn of subordinated debt was considered as debt rather than equity.



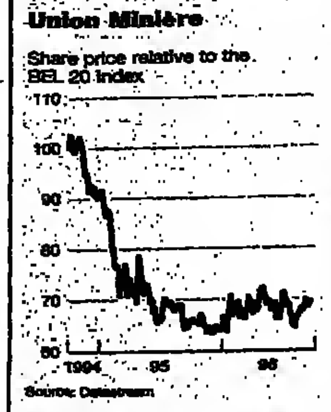
EUROPEAN NEWS DIGEST

SBC set to unveil domestic revamp

Swiss Bank Corporation, which has been expanding its international business rapidly, is expected to announce today a significant restructuring of its domestic Swiss business. The bank is the smallest of the big three Swiss banks but has the largest branch network and its operating expenses are higher than those of Union Bank of Switzerland, the market leader.

Mr Marc Ospel, chief executive, is expected to outline the changes in Basle this morning. The bank refused to comment on speculation that the changes would also involve a reorganisation of asset management ond private banking. However, the presence at today's meeting of Mr Franz Menotti, head of the group's domestic business, led analysts to believe there would be a heavy domestic content in the changes. Ms Susanne Borer, of Bank Vontobel, said that SBC, as the smallest of the big three, had to get critical mass or restructure its domestic business. *William Hall, Zurich*

Sales fall hits Union Minière



Union Minière, the Belgian conglomerate, said first-half net profit fell from BFr311m to BFr218m ($7m) as sales dropped from BFr71.5bn to BFr64.7bn. Profit before exceptional items and tax fell from BFr1.1bn a year ago to BFr782m. The group said second-half profit before exceptional items and tax should be higher than in the first half, as long as metals prices did not fall significantly. Union Minière said operating profits fell from BFr1.493bn to BFr829m while financial costs shrank from BFr488m to BFr117m. The fall in profit before exceptional items and tax reflected the downturn in the transformation, diamond and construction sectors, offset by a rise in recycling and refining activity profits and much lower financial costs. *AFX News, Brussels*

Sonae ahead and upbeat

Sonae Investimentos, the holding company for Portugal's biggest retail and industrial conglomerate, forecast an 84 per cent increase in net profits for 1996, after minorities and excluding extraordinary income, from Es4.5bn in 1995 to Es8.3bn ($53.8m). It said earnings per share, discounting extraordinary profits, would rise from Es173 in 1995 to Es208. But analysts said earnings per share on underlying profits could jump to Es288 because income from some commercial real estate sales this year should be considered as extraordinary profit.

On the basis of a fall in extraordinary income from Es8.3bn in 1995 to a forecast Es5.6bn this year, Sonae Investimentos projected an increase in full-year net consolidated profit from Es12.9bn in 1995 to Es13.9bn.

The shares closed at Es4,440 yesterday, down from Es4,515. The group posted a 166 per cent increase in first-half net consolidated profits, after minorities and excluding extraordinary earnings, from Es1.2bn to Es3.1bn. Sales rose 29 per cent from Es159bn to Es205bn and Sonae forecast a similar increase to Es460bn for the full year. Under a planned demerger involving the listing of a separate company for Sonae's industrial operations in 1997, the group said shareholders would be offered one share in the new enterprise for every two shares held in Sonae Investimentos. *Peter Wise, Lisbon*

Ramon Masip of Nestlé dies

Mr Ramon Masip, chief operating officer for food at Nestlé, the Swiss food conglomerate, died yesterday. He was 55. Nestlé said Mr Masip had planned to retire from the post next year for health reasons and had been proposed for election to the Nestlé board. *AFX News, Vevey*

Pathé warns of second-half decline

By Andrew Jack in Paris

The chairman of Pathé, the French media group formed ont of the demerger of the Chargeurs conglomerate earlier this year, warned yesterday that second-half profits would be well below those for the first six months.

Mr Jérôme Seydoux said that delays in a number of projects, including CanalSatellite and films it had backed, would drag revenues below forecast levels.

His comments follow publication last week of Pathé's first results as a separate company, showing net income of FFr54m ($10.5m), compared with a pro-forma profit of FFr128m for the first six months of 1995.

Mr Seydoux said the delayed launch of CanalSatellite, the satellite broadcasting arm of Canal Plus in which Pathé owns 20 per cent, meant costs from an advertising campaign and delays in revenue from subscribers.

He said Pathé's stake in the parent Canal Plus, which works out at just below 3 per cent, was a "trading" and not a "strategic" holding, which he would enlarge or rsduce depending on the price.

He said Canal Plus's recent merger with the pay-TV operator NetHold was "a good operation", even if it needed heavy initial investment.

Pathé had no plans to launch new films during the second half of this year, so revenues would be lower from this division. Mr Seydoux said it was ready to open two new multiplex cinemas in France – in Grenoble and Marseille – next year, and three in the Netherlands by the end of 1998.

He said Libération, the left-wing daily newspaper in which Pathé has acquired majority control, would be consolidated in the second half. He predicted a modest loss for 1996, which is already recorded on the balance sheet at FFr61m, on turnover of about FFr400m.

He said he was confident the heavy discount at which Pathé's shares trade to their net asset value would diminish over time.

Additional assets may be sold to cut debt levels, which now stand at about FFr500m, Mr Seydoux said. He promised that Pathé would pay a dividend for the year, although this did not indicate a policy of paying high dividends each year.

Estonian bank aims to be Baltic's Hong Kong

The gleaming modern tower that Hansapank put up in Tallinn, the Estonian capital (right), masks the humble roots of one of central Europe's premier banks.

Nine young Estonians started Hansa in 1992, recalls Mr Hannas Tamjärv, its chairman, with a pooled 30m roubles – about $150,000. Besides capital, he says, the bank also lacked "old attitudes and old loan books".

But Hansa chose the right moment to come on the scene: when state-owned dinosaurs were suffering. Growth has been impressive. Net income has risen fivefold in the past three years to EKr76.7m ($6.5m) in the first half of 1996; and it controls a quarter of the market.

Hansa's ambitions go beyond Estonia. Its strategy is to become the first pan-Baltic bank, serving Latvia and Lithuania too, and providing an island of security next to the large and volatile Russian market – as Hong Kong does for China.

The coming months will be an important test for Hansa, which has never seen bad times. The first piece in the expansion puzzle was put in place earlier this year. Hansa took over Deutsche Lettische Bank, the loss-making fifth-largest Latvian institution, in a share swap worth EKr138.6m. DLB surprised many with a quick rebound, reporting a EKr5.1m profit in the first half of 1996.

"We define our market as the Baltic market," Mr Tamjärv says. "Growth is limited in Estonia [a country of 1.5m people]. But if things turn out well in Latvia, it would be logical to go into Lithuania".

Analysts believe the deeper pockets of Hansa, the biggest bank in the three Baltic countries, can steal corporate clients from Latvian competitors. Latvian banks are still reeling from a banking crisis last year, when nearly 40 per cent of the sector went under with Banka Baltija, then the biggest regional bank.

But expansion carries risks – particularly in Latvia, where banks had come to rely on Russian transit trade capital in a loosely regulated environment.

However, the bank believes the strategy will pay off in the long term. The diversification of its loan portfolio will reduce the impact of a shock in any one of its markets. All three countries are expecting strong export-led economic recoveries.

Hansa's growth has been fuelled by corporate and international financing business, although traditional and stable fee and deposit areas are strong too, with non-interest income accounting for 43 per cent of the total in the first half. The danger for Hansa, and Estonian banks with low reserves, is that bad loans would accumulate quickly in a recession.

To spread itself, Hansa has moved aggressively at home. The best-performing subsidiary was Hansa Leasing, showing a EKr16.1m profit through June. Its insurance arm, launched this year, will take longer to show a return.

The group has also attempted to develop in investment banking, with mixed results. Two funds put up by its Hansa Investments subsidiary never took off. But Hansa Invest has handled several large share issues, including a forthcoming one for Holupank, a savings bank.

The markets have not ignored the success. Hansapank stock began the year at EKr40 in Estonia, and trades near EKr90 today. Trading volumes have been smaller in Helsinki, but the share price went up from FM15 to FM36 in the same period.

"Hansapank is the best way for foreign investors to gain exposure to the Estonian market," says Mr Tom Bystedt, head of equities at Enskilda Securities in Helsinki, though he warns that Hansa stock lacks liquidity.

Another analyst says Hansapank, apart from Gazprom and Lukoil, the two large Russian energy groups, might be the "most lucrative stock in the ex-USSR". Compared with similarly sized central European banks, says Nomura, it is selling at a discount.

Judged by its present strengths, analysts believe, Hansa could become the dominant regional bank.

Matthew Kaminski

Hansapank: consolidated results

	1995 full year	1996 1st half
[illegible]	[illegible]	[illegible]
Earnings per share	9.6	11.6
[illegible]	[illegible]	[illegible]

Source: Company

Telefónica chases Romanian GSM deal

By David White in Madrid

Spain's Telefónica group is preparing to take legal action against the Romanian government if it fails to obtain permission to operate a new digital mobile telephone service.

Mr Marcial Portela, managing director of Telefónica Internacional (Tisa), the group's overseas subsidiary, was due to fly to Bucharest yesterday to seek a settlement in the dispute.

The Spanish operator claims it received guarantees four years ago that it would be allowed to set up a digital service using the Global System for Mobile Communications (GSM) standard.

However, the Romanian authorities have called a tender for the issuing of two GSM licences this month.

Stet of Italy has formed a consortium with Bouygues of France and Balli Group of the UK, backed by Goldman Sachs, the US investment bank, while Motorola of the US has linked with TeleDanmark, Telenor of Finland and two private-sector Romanian companies.

Telefónica is understood to have offered to pay an entry fee but is not taking part in the tender, arguing that because of its previous arrangement it should not have to compete for a licence.

Mr Portela's mission followed the abrupt departure on Monday of Mr Germán Ancochea as chairman of Tisa and managing director of the Telefónica group.

The move, the timing of which was unexpected, was thought to reflect a personality clash between Mr Ancochea, who had been in post since 1989, and Mr Juan Villalonga, the new chairman of the 21 per cent state-owned gronp, appointed by the centre-right government.

EUROPEAN NEWS DIGEST

CFF investors take action against Cob

Shareholders in Crédit Foncier de France, the specialist property bank, yesterday launched legal action against the Cob, the country's stock market watchdog, in the latest attempt to block the takeover bid launched by the state earlier this month. Ms Colette Neuville, head of Adam, the association for the defence of minority shareholders, said 680 Crédit Foncier investors had signed a complaint that the Cob should not have approved the takeover document because the state had not formally stated its responsibilities.

The state launched a FFr2.6bn ($506m) bid for Crédit Foncier at FFr70 a share, a price which was supported by its advisers. However, the price was at the bottom of a range given in a second valuation by Détroyat, an equity research firm, which suggested the shares were worth up to FFr98 each.

Yesterday's news was a positive development for shareholders objecting to the takeover. It comes after the the Paris commercial court decided earlier this month to rule out investors' demands for a separate independent valuation. Separately, the court will hold hearings on September 24 to judge whether shareholders are justified in their claim that the vote at Crédit Foncier's general meeting at the end of June to approve its 1995 accounts was invalid.

Andrew Jack, Paris

Disposal hits Club Med sales

Club Mediterranée, the French leisure and resort group specialising in exotic holiday destinations, reported sales for the nine months to July 31 of FFr5.84bn ($1.1bn), down 7.7 per cent from FFr6.32bn for the same period last year. It blamed the fall mainly on the sale in December of its 48.8 per cent stake in Maeva, the holiday homes company, to fellow French leisure group Havas. Maeva generated sales of FFr311m last year. After accounting for changes in group structure and exchange fluctuations, sales for the period at Club Mediterranée were down 2.1 per cent.

AFX News, Paris

Cypriot bank ahead 10%

The Popular Bank, Cyprus' second largest, announced a 13 per cent rise in first-half operating profits and an interim dividend of 8 per cent. Net profits were up 10 per cent to C£9.7m ($20.7m). Mr Kikis Lazarides, chairman, said 14 per cent of the bank's profits came from operations in Greece and the UK.

Andreas Hadjipapas, Nicosia

Snia Fibre reduces deficit

Snia Fibre, the fibres division of Fiat of Italy, incurred first-half pre-tax losses of L3.1bn ($2m), compared with a deficit of L5.9bn last year. First-half operating profits rose 2.7 per cent to L19.1bn. Sales fell 3.4 per cent to L547.5bn. Parent pre-tax losses were L2.5bn, against L4.8bn.

Caffaro, another Fiat subsidiary, posted first-half pre-tax profits up from L27.8bn to L38.1bn. Operating profits were up 18.2 per cent at L43.6bn. Sales rose 18 per cent to L575.2bn. Parent pre-tax profit rose from L4.7bn to L24.1bn on sales of L95.4bn compared with L112.5bn.

AFX News, Milan

Lower tax helps David Jones beat prospectus

By Bruce Jacques in Sydney

David Jones, the Australian department store retailer, has narrowly beaten its prospectus forecasts with net earnings of A$67.5m (US$53.2m) in the year to July, its first as a public company.

The performance was attributed mainly to a lower than expected tax bill. The net profit was 4.5 per cent ahead of the prospectus, while the A$98.3m pre-tax result was 11.5 per cent below forecast.

Tax provision halved to A$18.6m due to recognition of previously unbooked tax benefits of A$41.2m. The company will pay a final dividend of 6 cents a share, bringing the annual payout to 12 cents, in line with the prospectus.

Sales, at A$1.44bn, were 2 per cent below forecast, which was blamed on weaker consumer demand. The company described the result as "disappointing", blaming difficult trading conditions, especially in the second half.

The company earned more than two-thirds of its annual profit in the first half, which included the Christmas period, and David Jones chief executive Mr Chris Tideman warned of continued tough market conditions in retailing.

"The company protected its margins by not aggressively pursuing discount activity," he said. "Retail sales in August have generally continued at similar levels to that experienced in the fourth quarter."

"The etrength of our market position will ensure that we are well placed to benefit when the retail environment improves. However, the company does not expect any material improvement in the retail environment in the short term."

Mr Tideman outlined a programme of heavy capital expenditure, involving new stores, refurbishments and investments in information technology. Capital expenditure rose from A$46.5m to A$55m in the latest year.

He also foreshadowed continued restructuring of the business, including improved stock control and staff rostering and the establishment of a new credit system. The company terminated its credit card securitisation arrangements in the year, bringing A$166m of credit card receivables on to the balance sheet. This was mainly financed by a draw-down of a $123m facility.

The result was an increase from A$130m to A$250m in long-term borrowings and a rise from A$10m to A$12.2m in interest expense.

The shares eased 1 cent to A$1.65 yesterday, against a peak of A$2.09 after flotation late last year.

Weak markets trading hits Nikko forecast

By Emiko Terazono in Tokyo

Nikko Securities, one of Japan's Big Four brokers, yesterday slashed its interim and annual earnings forecasts as sluggish summer trading on the Tokyo Stock Exchange hit commission revenue.

The broker said it now expected Y20bn ($181.2m) in unconsolidated recurring profits – before extraordinary items and tax – for the first half to September, down 22 per cent from the previous year and little over half its initial projection of Y38bn.

Parent interim after-tax profits are now expected to total Y9bn, down 48 per cent from a year before and half its earlier forecast of Y18bn. Operating revenues were also revised downwards, from Y165bn to Y138bn, close to last year's total.

Nikko, which is the country's third-largest broker on a operating revenue basis, following Nomura Securities and Daiwa Securities, blamed the unexpected downward revision on the trading slump in July and August, when overseas and domestic investors refrained from activity on fears of an imminent cut in interest rates and volatility on Wall Street.

Overseas investors, who had been the leading buyers at the start of the year, turned net sellers. This came amid concerns of extra supply as banks announced they would dip into the market to boost their capital ratios.

The auction ahead of the partial privatisation of West Japan Railway, scheduled for next month, also dampened activity.

Although the company had expected daily trading volume on the Tokyo Stock Exchange to average Y500bn during the first half, the actual figure was only Y430bn. Analysts expect other brokers to follow Nikko in revising earnings projections downwards.

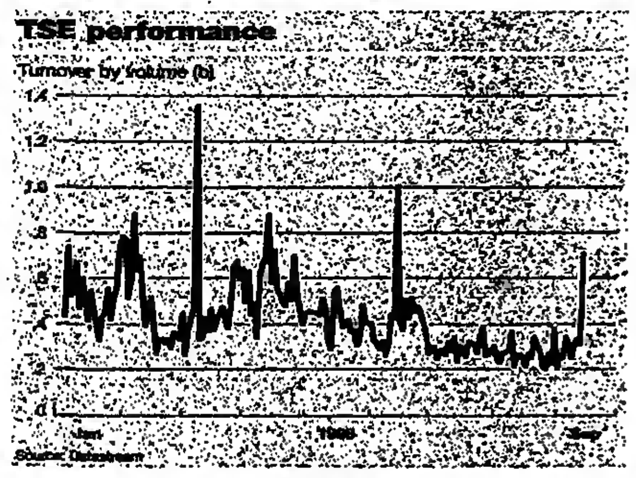
The decline in market activity resulted in a 9.2 per cent fall in first-half brokerage commission revenue forecasts, to Y118bn, including a cut in stock brokerage commission projections from Y61bn to Y44bn, said Mr Katsuyuki Ishiomaru, a senior managing director. The company also suffered from a decline in other stock market fees and profits on its own portfolio trading.

Nikko also cut its earnings estimate for the full year to March. Mr Ishiomaru said the company would try to regain lost ground from faltering stock commissions in the first half through gains in stock and bond trading on its own account during the second term.

The company now expects full-year unconsolidated recurring earnings to fall 7.7 per cent from the previous year, to Y60bn, and after-tax profits to decline 28.8 per cent to Y33.7bn. Operating revenues are expected to rise 1.5 per cent to Y300bn.

Looking for business: share trading in Japan *Reuter*

TSE performance



First Pacific arm to manage Bonifacio site

By Edward Luce in Manila

First Pacific Davies, the property arm of Hong Kong-based First Pacific, yesterday signed an agreement to manage the development of Manila's 440 ha Fort Bonifacio development. It billed the contract "as one of the largest of its kind in the world".

The deal, whose value was not disclosed, gives First Pacific 40 per cent of a joint venture to oversee the 20-year to 25-year development of Bonifacio city. With 8.8m sq m to develop – roughly the size of Boston's business district in the US – the company would be "master-planning" the largest urban project in the Philippines.

"We cannot begin to estimate the revenue stream from this," said Mr Lindsay Orr, head of First Pacific Davies's Philippines office. "We basically have a 50-year contract to manage the horizontal development of Bonifacio, including property services, land administration and infrastructure."

Fort Bonifacio Development Corporation (FBCD), which is 55 per cent-owned by a 17-member private consortium led by Metro Pacific, First Pacific's Philippine holding company, and 45 per cent by the Philippine government, plans to break ground on the development by the end of the year.

The project, which will produce a business centre twice the size of Makati, Manila's main business district, will also include an underground railway, an overground railway terminal, and residential capacity for up to 500,000 people. The consortium, which paid a record 39bn pesos (US$1.5bn) last year for its 214 ha share of the site, is expected to list on the Philippine stock exchange next year.

It has already pre-sold lots covering 16 ha, at an average price of 180,000 pesos a square metre, or more than five times the original auction price. The consortium also plans to set up a university in the city and has signed a memorandum of understanding with Harvard University to build a medical centre.

First Pacific Davies, which will hand out sub-contracts for the water, telecommunications and transport infrastructure, will be paid on a fee basis for services provided.

With Smart Communications, the telecoms arm of Metro Pacific, having already been awarded the government contract to install phones, analysts say it is clear the project will be dominated by First Pacific and its subsidiaries.

● Philippines Survey – separate section

ASIA-PACIFIC NEWS DIGEST

Kyocera to spin off solar energy unit

Kyocera, the Japanese producer of high-performance ceramics and electronic components, is to spin off its home solar energy business into a separate company. Kyocera said the split was designed to help the unit boost marketing to residential buyers, leaving the parent to concentrate on research and development and sales of solar energy equipment to industrial users. The spin-off is an unusual step for a Japanese company, as they tend to keep diversifications in-house in keeping with their corporate group ethic.

The new company, Kyocera Solar Corporation, will be launched on Friday with capital of Y300m ($2.7m) and a staff of 110, mostly sales people, to start operations in November. It aims to have 100 sales outlets in Japan by the end of the decade, with annual sales of Y60bn in solar panels and water boiling equipment. Kyocera bases the projection on the growing trend for environmentally-friendly products among the Japanese. It believes Japan will be one of the first countries to feel the effects of an eventual oil shortage in the future.

Solar energy is a small part of Kyocera's business. Its financial results are not disclosed in detail, but solar equipment is part of its consumer products division, which reported sales of Y36bn, or 5.6 per cent of the group total, in the year to last March. Kyocera's consolidated sales rose nearly 30 per cent to Y647.1bn last year, on which pre-tax profits more than doubled to Y163.7bn.

William Dawkins, Tokyo

LG Semicon IPO still on

LG Semicon, the semiconductor unit of South Korea's LG Group, will proceed with a Won200bn ($241.3m) initial public offering today and tomorrow in spite of a eharp fall in global semiconductor prices and a weak Seoul stock market. LG Semicon, which will be listed on the Seoul stock exchange on November 5, predicts that 1996 net earnings will fall 88 per cent to Won132m, as sales decline 2.9 per cent to Won2,440bn.

The subscription price for the 10m shares on offer is set at Won20,000 each, with an individual investor limit of 1,000 shares. Samsung Electronics, the only big Korean semiconductor company that is listed, is now trading at Won58,500.

In spite of the poor market conditions, equities analysts say LG Semicon must proceed with the IPO because of the possibility of it still recording a loss this year, which would prevent it from gaining a listing until at least 2000. Under Seoul stock exchange rules, no company can issue an IPO until it has reported three consecutive years of net earnings of at least Won5bn.

Hyundai Electronics, another Korean semiconductor manufacturer, plans a Won200bn IPO in November that will be almost identical to the LG issue, with a subscription price of Won20,000 a share.

John Burton, Seoul

Nintendo game for Europe

Nintendo, the Japanese computer games group, yesterday said it would start selling its new 64-bit video game machine Nintendo64 in Europe next March.

The machine will be sold in Germany for DM399 ($264), but prices for other countries have yet to be announced. The machine was launched in Japan in June and will appear on the shelves in the US at the end of this month.

Agencies, Tokyo

Canada probes small companies' financing

By Bernard Simon in Toronto

Canada's securities industry has launched an investigation into conflicts of interest surrounding the financing of small companies.

The inquiry, under the auspices of the Investment Dealers Association, comes amid rising concern about the role of underwriters, research analysts and retail brokers in supporting the speculative mining and energy issues that are a feature of Canada's resource-based markets.

These issues make up e substantial portion of some securities firms' business and enjoy a significant following among US and European investors.

Several cases have surfaced recently in which securities industry employees involved in raising funds for a junior company turned out also to be sizeable shareholders.

In at least one instance, an employee sold his shares shortly before the company's share price crashed.

The most publicised case involved Alberta-based Cartaway Resources, whose shares soared to a peak of C$26 earlier this year on hopes that its exploration property in Labrador contained a rich nickel deposit. The shares tumbled to less than C$2 after disappointing drill results.

It was snbsequently revealed that employees at First Marathon Securities, one of the most active underwriters of speculetive resource issues, at one time built up a 46 per cent stake in Cartaway. Questions have also been raised about the timing and disclosure of their transactions.

The inquiry will be conducted hy a 12-member panel, a third of whom are from outside the securities industry. It is expected to make recommendations to provincial securities commissions and etock exchanges by the end of the year.

Mr Ian Russell, vice-president of the Investment Dealers Association, said the inquiry will review rules on securitiee firm employees acting as promoters, shareholders, directors and officers of small companies. Its mandate also covers "client preference" rules, involving the distribntion of public offerings and private placements.

Opinions are divided within the securities industry itself on the best course of action.

At a minimum, the panel is expected to recommend tightening disclosure rules, which at present fall wall short of US standards.

AMERICAS NEWS DIGEST

SCI in $2.5bn bid for Loewen

Houston-based Service Corporation International, North America's biggest funeral operator, has made a US$2.5bn all-share offer for its main rival, Vancouver's Loewen Group. Loewen gave a non-committal reply to SCI's surprise overture yesterday, saying that its board would review the offer and respond "in due course". SCI's bid, equivalent to US$43 a share, represents a 27 per cent premium above Loewen's price prior to yesterday's offer.

Mr Ray Loewen, the company's founder and chief executive, is the biggest single shareholder, with 15 per cent. Another 42 per cent of the shares are in institutional hands. Loewen's share price soared by C$7.90 in Toronto to C$54.40 shortly before yesterday's close.

Both companies have grown rapidly by buying out small family funeral parlours in the US and Canada. More recently, SCI has turned its attention overseas with sizeable acquisitions in the UK and France. SCI said competition issues could be settled through selected divestitures without impairing the value of the merged entity.

Bernard Simon, Toronto

ADM boardroom shake-up

Archer Daniels Midland said two long-time directors will step down next month, leading the way to further governance reforms at the Illinois-based agribusiness group. The troubled company has been under fire for more than a year because its executive committee and 17-member board is dominated by family members and close personal friends of Mr Dwayne Andreas, chairman.

At its annual meeting on October 17, ADM will implement several board reforms, including cutting the number of directors to 12 and setting a maximum age of 70 for directors. Overall, eight existing directors will retire from the board, and three new directors will be added. Directors leaving the board include Mr Michael Andreas, the son of the chairman, who had long been expected to succeed his father.

In a preliminary proxy statement, the company said that Mr Ralph Bruce and Mr John Daniels, both on the executive committee, will also leave the board. Mr Andreas's tight control of the board has been blamed for the company's slow response to shareholders in the wake of the price-fixing scandal that has plagued ADM's fastest-growing division – bioproducts – since 1995.

ADM recently agreed to pay $25m to settle civil complaints by customers over price-fixing for the feed ingredient lysine. ADM is one of the world's largest lysine producers. Three of its rivals in the lysine business, all Asian companies, agreed in August to pay more than $20m in criminal fines to the US government in response to charges of international price fixing for lysine, and are now co-operating with the government criminal investigation. Lawyers say that the government is negotiating with ADM to reach a settlement in a similar criminal case, although neither the company nor government attorneys would comment on the matter.

Laurie Morse, Chicago

Pegasus offer for Dayton

Pegasus, a medium-sized Canadian-based gold producer, has offered more than C$500m (US$365m) in a share exchange for Dayton Mining, owner of the new Andacollo gold mine in Chile. Pegasus operates five small US gold mines and another in Australia, with operations based in Spokane, Washington. The Andacollo mine would lower Pegasus's overall production cost structure significantly.

The offer is 0.75 of a Pegasus share for each Dayton share. It is backed by Dayton's management which together owns 20 per cent of the 45m shares outstanding. The Pegasus offer, based on market valuations last Friday, is worth nearly C$12 a Dayton share, or a substantial premium. Investment bankers Nesbitt Burns has been retained to advise Dayton.

Robert Gibbens, Montreal

Prince to negotiate new record contract

By Alice Rawsthorn

Prince, one of the best-selling pop stars of the 1980s, has started talks with a number of the world's largest record companies hoping to clinch a new recording contract.

The notoriously temperamental singer recently ended a 19-year association with Warner Music, part of Time Warner, the US entertainment group, after a series of rows culminating in his changing his name to an unpronounceable symbol and appearing in public with "Slave" on his cheek.

Last month, Prince delivered the last of the six albums under his Warner contract, which was one of the most lucrative in the music industry when it was signed in 1992.

He has since been free to negotiate with other companies and is understood to have approached several over the summer, including EMI, Sony, PolyGram, BMG and MCA, but not Warner.

Sales of Prince's records have fallen significantly since his heyday in the 1980s, when he was one of the world's most commercially successful pop performers. His recent albums have generated weak sales.

However, Prince is still regarded as an extremely talented figure and it is rare for an artist of his calibre to come on to the market.

Most of the large labels are believed to have expressed interest in signing him.

"Of course we are interested in Prince," one senior music executive said. "He is an incredible talent, who would bring tremendous kudos to any label. And he is still a big name, which is always worth money in a high-risk business."

The critical question for the record companies is how much Prince is worth, particularly as Warner is entitled to hold on to his potentially lucrative back catalogue of past releases for at least three years.

He has started negotiations when pop stars are commanding increasingly generous terms from record companies, as illustrated by the $80m, five-album deal that the group R.E.M. signed with Warner last month.

Prince is believed to be insisting on steep terms. His last Warner deal not only gave him large advances and high royalties, but made him a vice-president of the company and required Warner to invest $25m in setting up Paisley Park, his "vanity" record label.

Warner has had considerable success with other vanity labels – Madonna's Maverick label signed Alanis Morrissette, the Canadian singer who has since sold more than 17m copies of her debut album worldwide. Paisley Park's sales, however, have proved disappointing.

The chief challenge for the record companies now in talks with Prince is to gauge whether he can return to his old superstar status.

Growing big in the business of growth

Potash Corporation's acquisitions have won admiration and quadrupled sales

Potash Corporation of Saskatchewan has generated a rare level of adulation in an industry not renowned for glamour.

The fertiliser producer, based in the heart of the Canadian prairies, has won admiration for a series of bold acquisitions that have more than quadrupled its sales since the Saskatchewan provincial government privatised it in 1989. Furthermore, the expansion has taken place without financial or management strains.

The two latest purchases – one in Europe, the other in the US – will almost treble its size again, bringing annual sales to about US$4bn. They will give PCS control of about half of world trade in potash (the common name for potassium chloride), as well as extending its interests from two of the main plant nutrients, potassium and phosphates, to the third, nitrogen.

The company has offered to buy 51 per cent of Kali und Salz, which has a virtual monopoly on the German potash market, as well as a significant export business. The addition of K & S is also expected to increase PCS's bargaining power with China, the world's biggest fertiliser importer. K & S had a total market value of about DM1bn ($662m) when the proposed deal was revealed last month.

The move into nitrogen would result from a friendly US$1.2bn offer for Tennessee-based Arcadian Corp, the biggest nitrogen producer in the western hemisphere. PCS beat a bid by Freeport McMoran, the New Orleans-based mining and fertiliser group, which indicated that it would not return to the fray.

Mr Charles Childers, PCS's chief executive for the past nine years, said the Arcadian deal was "not dependent on synergies". "We did it because this company is attractive to our shareholders by itself," he added.

One attraction is that 40 per cent of Arcadian's products, which include urea, nitric acid and ammonium nitrate, go to industrial customers rather than the fertiliser market.

PCS already controls about 22 per cent of world potash capacity from mines in Saskatchewan, New Brunswick and Utah, and almost half of estimated reserves. The Saskatchewan mines, sitting atop a rich belt of potash almost 1,000km long and 160km wide, are among the lowest cost producers.

The expansion into phosphates, starting with the April 1995 acquisition of North Carolina-based Texasgulf, has given PCS an 8 per cent share of world production and 7 per cent of capacity. According to Mr Childers, if the company was going to grow, it had to move into something else. "We've gone from being a major potash producer to being a major fertiliser producer," he explained.

It would be surprising, however, if the addition of a third leg did not strengthen PCS's two other businesses. Mr Childers says that when PCS entered the phosphates business last year, some Texasgulf customers switched their potash business to PCS.

Mr Don Pattison, analyst at Deutsche Morgan Grenfell in New York, says PCS's attractions go beyond its hold growth strategy. He also credits PCS with being a leader in mining technology, tax planning and marketing.

Mr Pattison predicts that PCS's earnings, which reached $160m, or $3.68 a share, in 1995 will grow by an average of 30 per cent a year for the next five years. He forecasts 1997 earnings at $8 a share, up from $6 this year.

Others wonder, however, whether the curve will be quite so steep. PCS's share price, which has more than quadrupled in the past three years, lost ground after news of the Arcadian bid. The shares were trading at C$101.25 in Toronto early this week, down from their C$110.88 peak.

Nitrogen producers generally trade at lower price-earnings multiples than suppliers of other fertiliser raw materials. While potash and phosphates are mined, nitrogen is manufactured. As a result, the nitrogen market is seen to be more vulnerable to excess capacity.

Fertiliser prices have traditionally been volatile. But PCS and its fans contend that the company can only benefit in the long run, as rising living standards lift demand for food and improve crop quality in rapidly developing countries such as China and India.

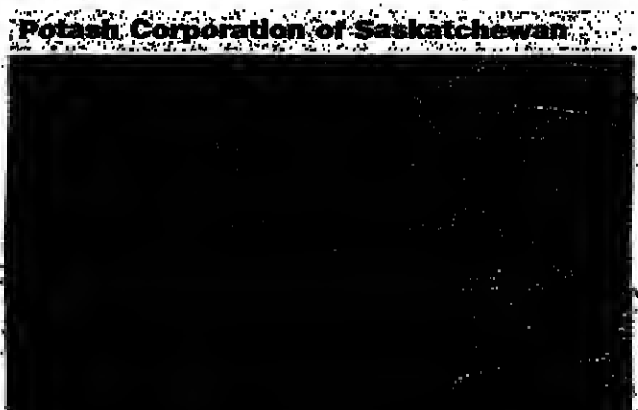
In PCS's last annual report, Mr Childers said the company believed there would be continued growth in fertiliser consumption. "That growth may not be steady, but the trend line will definitely be up," he added.

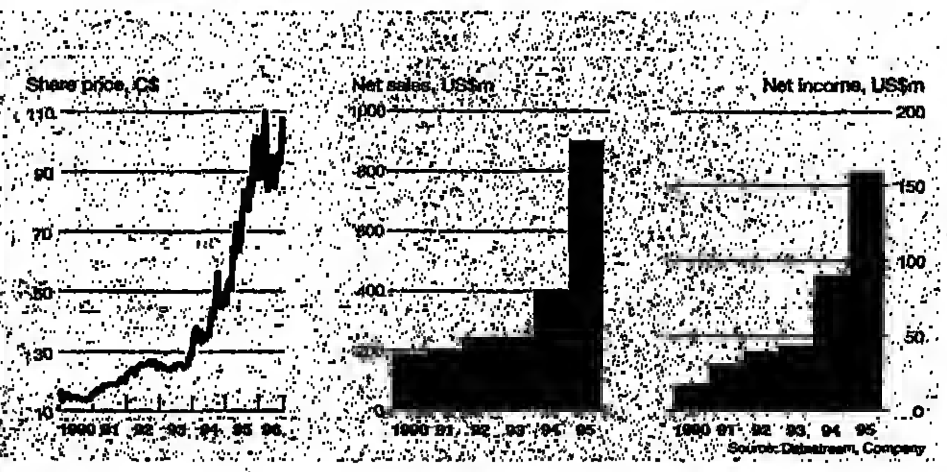
Even the $600m of extra debt required to finance the Kali und Salz and Arcadian acquisitions have raised few concerns in the investment community.

Total debt will rise to between $1.3bn and $1.4bn, or 42 per cent of capital. But Mr Pattison expects PCS will be able to repay the extra borrowings within three years.

Bernard Simon

Potash Corporation of Saskatchewan





Fertiliser industry recovers as the world's diet changes

The global fertiliser business is smelling like a rose, with demand and prices for leading fertiliser components rising as world grain stocks shrink and diets in developing nations shift to grain-intensive proteins such as beef, pork and poultry.

Grain prices tend to drive fertiliser demand, with high prices for harvested crops giving farmers an incentive to add more soil nutrients and expand plantings. Maize prices reached their highest level in a decade this summer as the world's grain surplus fell to 25-year lows, sparking a surge in fertiliser use.

This season'e US harvest will be larger than last year'e, hnt not enough to rehuild global foodstocks. Forecasters now say that grain prices may stay near historic highs for another two years, and that fertiliser prices should follow suit.

Although the miracle fertilisers produced in the "green revolution" of the 1960s are unlikely to he duplicated, more and smarter use of soil nutrients is expected to be central to feeding the expanding diets of China and other fast-developing Asian nations.

This is good news for the global fertiliser industry, which has been battered by two decades of over-supply, weak markets and practices aimed more at maintaining market share than generating profits.

"Most of the good-old-boy style managers have heen replaced by real businessmen at the major companies," says Mr Doug Groh, a chemicals industry analyst for Merrill Lynch.

While there were nearly 100 fertiliser producers in North America 20 years ago, just a handful now dominates the extraction and processing of the three main nutriants needed to boost soil productivity: potassium, phosphorus, and nitrogen. Two mineral giants, Potash Corp of Saskatchewan and Chicago-based IMC Global, compete for dominance in both potash (mined to produce potassium) and phosphates (mined to produce phosphorus). Both have formed partnerships or executed mergers in the past few years that have allowed them to diversify into nitrogen-based fertilisers as well.

Of the three main nntrients, phosphate rock is the one in tightest supply, with the US controlling the single largest share (30 per cent) of world production. IMC Global, in a joint venture with natural resource company Freeport McMoRan, accounts for 42 per cent of US phosphate rock production, followed by Potash Corp and the privately-owned Cargill.

IMC-Agrico, the three-year-old partnership between IMC and Freeport, is credited with taming fractious competition between smaller phosphate producers in Florida, where much of the US phosphate reserve is concentrated.

"Very responsible supply management practices by IMC-Agrico and the inevitable return of export demand have helped to drive [phosphate] inventory levels down," wrote Mr David Neleon, fertiliser analyst for NatWest Sacurities in a recent report on the fertiliser industry. Phosphate rock supplies are expected to tighten considerably within 10 years, and NatWest estimates replacement costs of at least $40 a ton, double the current price.

Laurie Morse

3DO looks to shed hardware side

By Louise Kehoe in San Francisco

3DO, the struggling US video game machine and software company, plans to sell its hardware business or move it into a joint venture, the company announced.

About 150 people, one-third of the company's workforce, will lose their jobs in the restructuring. 3DO will now concentrate on software, the company said, with a new focus on games to be played on the Internet.

"The internet, and Internet entertainment in particular, is e huge opportunity," said Mr Trip Hawkins, chairman and chief executive.

The restructuring represents an about-face for 3DO, which had ettempted to create a new type of video game machine with better graphics and sound. The 3DO machines, however, turned out to be much more expensive than competing systems from market leaders Sega and Nintendo.

Last year, Toshiba and Goldstar cancelled plans for new 3DO machines, while Matsushita Electric, a 3DO shareholder, agreed to pay $100m for the rights to the next generetion of technology.

"Now we can concentrate on our most compelling entertainment software projects, while spending less capital, making better products, and getting into position for Internet-driven growth," Mr Hugh Martin, 3DO president, said.

● Mr Charlie Christ, vice-president and general manager of Digital Equipment's components business, is to be chairman of Alta Vista, Digital'e fast-growing Internet search and software business, when the unit is floated later this year, Paul Taylor writes.

Alta Vista, which provides users with a powerful Internet search facility, has grown quickly since it was set up earlier this year in competition with other Internat search companies such as Yahoo! and Lycos.

Mr Christ, speaking at the International Data Corporation IT Forum in Paris, said Digital had decided to float the company to maximise shareholder value, and had decided against a trade sale because "Alta Vista needs to be independent in order to move quickly".

The Digital executive said the company was "not just a search engine company", and that he expected its valuation to also reflect its software business.

COMPANIES AND FINANCE: UK

Tesco stays ahead of rivals

By Christopher Price

Tesco consolidated its position as the UK's most popular supermarket chain in the first half, as pre-tax profits rose 12 per cent and like-for-like sales accelerated in the second half.

The group said its market share was up from 13 to 14 per cent, leaving J Sainsbury on about 12.5 per cent. Asda and Safeway are estimated to have about 8 per cent each.

Tesco also promised to continue its aggressive price-promotion campaigns, the latest of which has prompted fears of a renewed price war.

Pre-tax profits for the 24 weeks to August 10 rose from £290m to £326m, on turnover up 14 per cent to £6.7bn.

However, the company said profits were some £20m below expectations due to a price war at the petrol pumps. As a result, the rise in operating profits was limited to 6 per cent at £329m, with gross margins declining by 0.4 per cent.

Sir Ian MacLaurin, chairman, said the group's strategy of combining initiatives on price, customer service, product quality, new store formats and financial services had worked it well. "We have to be competitive on all fronts."

Sales in Europe rose 41 per cent to £396m, with operating profits in the region increasing 37 per cent to £5.9m. The figures included a £35m contribution from the 17 Czech Republic stores bought from Kmart for £79m in April.

Sir Ian said the group would concentrate on organic growth on the continent, although it would continue to examine any acquisition opportunities. He admitted Tesco had considered bidding for Docks de France, the private French retailer, but had been discouraged by the price and the lack of a French partner.

P&O forecasts storms

By Geoff Dyer

Lord Sterling, chairman of P&O, attempted to force the pace of rationalisation in the cross-Channel ferry market yesterday, saying that a solution to the industry's acute overcapacity problem had to be reached quickly if it was to recover next year.

His comments prompted speculation that P&O, the transport, construction and property group, would agree a reduction in capacity on the Channel with its main ferry rivals by the end of this year. P&O took the first step in this process yesterday when it took full control of North Sea Ferries (NSF) by buying Royal Nedlloyd's 50 per cent stake in the joint venture for £25.25m.

The need for prompt action was underlined when P&O announced that profits from its ferry operations had all but disappeared in the first half of this year, dropping from £24.8m to £500,000.

Facing intense competition from Eurotunnel, car volumes on P&O's Dover-Calais ferries fell 16 per cent and the group also made losses on the western Channel.

In July the government dropped restrictions which prevented the ferry companies working together. Lord Sterling said he had held preliminary discussions with all P&O's competitors, which include Stena Line and Hoverspeed. "People have got to get a move on if we are to take advantage of the 1997 [summer] season," he said, as regulatory approval of any deal would take at least three months.

The potential cost savings from any rationalisation would be "dramatic" as each ship cost £15m-£20m and there was huge overlap on reservations, marketing and advertising.

A full-scale merger between P&O and a rival would be unlikely to be approved, he said. His preferred structure was a joint venture.

This would follow the pattern of the deal P&O announced last week to combine its container shipping operations with Nedlloyd, to create one of the largest container lines in the world.

See Lex

Closure charges hit Sears

By Ross Tieman

Pre-tax profits at Sears, Britain's biggest speciality retailer, slumped to just £2.5m ($3.9m) from £30m on sales of £908m during the first half.

The figure was struck after widely-expected net provisions of £25m for the closure of 379 shoe stores returned to Sears after the collapse of Facia Group, which had earlier taken them off its hands.

But it also reflected a mixed performance from Sears' own portfolio of stores. Although sales from ongoing businesses increased 7.9 per cent to £843m, profits before tax and exceptional charges rose just 3.7 per cent to £28m.

The Selfridges department store on Oxford Street in London, star of the company's portfolio, continued its unrelenting progress, with trading profits ahead 22 per cent to £13.4m on sales up 12.5 per cent at £131m.

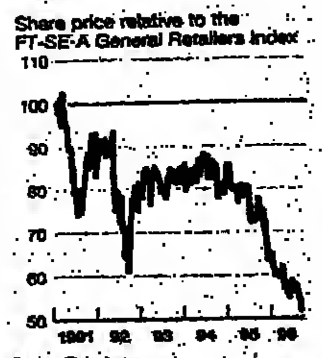
Net debt rose from £8.8m to £18.5m; but the company expected to end the year with neutral cash flow.

LEX COMMENT

Sears

For once Sears has delivered the City a pleasant surprise: Yesterday's better than expected results put analysts in the unusual position of having to upgrade their forecasts. But it is too early to say whether this is simply a stay of execution for Mr Liam Strong, the chief executive, or marks a more enduring turn in fortune for the troubled retailer. Mr Strong's approach so far is largely uncontroversial. The group was out of control. Focusing on four main sectors and cutting brands to 10 from 24, were necessary initiatives. Steps have been taken to cut costs and the investment in logistics should improve stock management in the troubled shoe division.

Sears
Share price relative to the FT-SE-A General Retailers Index



Source: Datastream

Stabilising the group's performance is no small achievement, but it has taken time. The price may be that, even if the current strategy proves conceptually correct, it may fall into place just as the economy turns down.

There is a further concern. If Sears is really to shift through the gears, management will have to show that it knows how to expand sales.

A smooth running engine is a necessary, but not sufficient, condition for success. In retail, the body-work must also shine. Further investment in the strong Selfridges brand is promising, but Sears has still to show it has the merchandising skills necessary to pull customers into its other stores.

Yesterday marked the end of the beginning. Mr Strong's future will depend on what follows.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abacus Recruit #	Year to June 30	6.5	(5.82)	0.386	(0.001)	3.6	(1.8L)	nil	-	nil	nil	nil
Abbott Mead	6 mths to June 30	159	(137)	4.7	(3.49)	7.95†	(6.06)	3.25	Oct 25	2.75	-	6
Acorn Computer	6 mths to June 30	16.5	(16.4)	3.32L♠	(7.64L♠)	3.7L	(9.9L)	nil	-	nil	-	nil
Asda Property	6 mths to June 30	16.2	(11.8)	5.07	(3.35)	3.3	(2.5)	0.85	Nov 1	0.8	-	2.6
Auto Precision	6 mths to June 30	12.3	(11.1)	2.71	(2.81)	4.5	(4.6)	1.7	Oct 31	1.7	-	5
Brent Intl	6 mths to June 30	71.5	(71.4)	5.28♠	(2.01♠)	4.2	(0.6)	1	Nov 25	0.6	-	2
BSG Intl	6 mths to June 30	476	(428)	16.45	(14.22♠)	4.11	(3.09)	0.77	Dec 31	0.7	-	3.2
BSM Group	6 mths to June 28	13.8	(11.9)	2.92	(2.43)	7.5	(6.3)	2.53	Oct 28	2.3	-	6.9
Burnfield	6 mths to June 30	23.1	(22.4)	1.19	(2.03)	2.4	(4.1)	1.3	Oct 16	1.3	-	3.3
Canning (W)	6 mths to June 30	39.6	(37.6)	4.42	(3.67)	6.9	(8.3)	3.4	Dec 2	3.2	-	6
Cassell	6 mths to June 30	10.2	(8.8)	0.64L♠	(0.63L♥)	6.1L	(9L)	1.5	Oct 21	1.5	-	4.5
Claremont Garments	6 mths to June 29	84.4	(78)	2.67	(6.78)	3.3	(8.5)	4.62	Jan 2	4.4	-	6.65
Clinical Comp	6 mths to June 30	1.24	(0.92)	0.573L	(0.357L)	3.4L	(2.2L)	nil	-	nil	nil	nil
CMG	6 mths to June 30	117	(94.6)	11.34	(8.64)	11.4†	(8.6)	2	Nov 20	-	-	-
EBC	6 mths to June 30	24.8	(28)	0.394	(0.371)	2.27	(2.09)	1	Oct 16	1	-	2.25
Golden Vale ♣	6 mths to June 30	289	(283)	4.05♥	(8)	1.96	(4.3)	0.66	Oct 16	0.66	-	2.2
Jarvis	6 mths to June 30	53.4	(34)	0.59	(0.108♥)	1.3†	(0.3)	nil	-	nil	-	nil
Jerome (S)	6 mths to June 30	16.6	(14.5)	0.614	(0.467)	4.7	(4.1)	1†	Nov 14	0.75	-	2.25
Jourdan (Thomas)	6 mths to June 30	10.7	(10.5)	0.33L♠	(0.2L)	1.8L	(1.1L)	0.5	Jan 7	0.5	-	1.25
Matthews (B)	28 wks to July 14	172	(145)	10.43	(8.67)	5.76	(4.74)	1.7	Oct 25	1.39	-	3.39
Mayborn	6 mths to June 30	25.1	(21.6)	2.87	(2.6)	8.6	(8.6)	2.5	Nov 1	2.25	-	7.2
Meggitt	6 mths to June 30	132	(166)	11.87♥	(8.07♠)	3.7	(2.2)	1.35	Dec 6	1.3	-	3.93
Meristem	6 mths to June 30	15.3	(7.1)	1.89	(1.33)	4.5	(3.5)	0.7	Oct 29	0.5	-	1.9
Park Estates ■	6 mths to June 30	0.53	(0.7)	0.238	(0.263♠)	7.04	(7.08)	3	Oct 4	-	-	-
P&O	6 mths to June 30	3,436	(3,060)	134.7♥	(131.9♥)	15.7	(14.1)	13.5	Nov 15	13.5	-	30.5
PPL Therapeutics	6 mths to June 30	2.1	(3.3)	1.69L	(0.687)	23L†	(31)	-	-	-	-	-
Quayle Munro	Year to June 30	1.02	(0.953)	1.17	(1.59)	24.02	(36.25)	7	Nov 4	6.5	10.5	9.5
Roxboro Group	6 mths to June 30	55.1	(45.8)	6.01	(8.16)	9.7†	(10.2)	2.2	Oct 30	2	-	6
S&U	6 mths to July 31	28.3	(29.4)	3.08	(2.75)	16.93	(15.08)	4	Nov 12	3.5	-	16
Savoy Hotel	6 mths to June 30	43.4	(45.7)	4.19♠	(3.74♥)	6.6	(8.1)	-	-	-	-	14
Sears	6 mths to July 31	908	(1,063)	2.5♠	(29.9♥)	-	(1.4)	1.05	Dec 2	1.05	-	3.95
Servomex	6 mths to June 30	15.8	(10.8)	1.41	(0.728)	6.4	(3.3)	2.7	Nov 1	2.3	-	7.5
Stylo	6 mths to Aug 3	88.5	(77.9)	0.671	(0.561)	1.26	(1.24)	nil	-	nil	-	4.66
Taylor Woodrow	6 mths to June 30	556	(547)	25.4♠	(14♠)	4.4†	(2.2)	1	Nov 1	0.75	-	3
Tesco	24 weeks to Aug 10	6,715	(5,891)	326♥	(290)	10.5	(10.1)	3.25	Dec 2	3.05	-	6.7
Treats	6 mths to June 30	12.7	(11.4)	1.5	(1.67)	10.5	(11.6)	1.5	Oct 15	-	-	-
United Ceramic	6 mths to June 30	16.6	(17.6)	1.67	(1.45)	4.5	(4.2)	1.6	Oct 23	1.5	-	4.5
Vardon ☆	6 mths to June 30	29.6	(20.6)	1.82	(2.34)	1.4†	(2)	0.45	Nov 15	0.4	-	1.65
Vymura	6 mths to June 30	22.3	(19.6)	1.27♠	(1.84)	3.47	(5)	1.6	Oct 29	1.9	-	4.7
Water Hall	6 mths to June 30	2.15	(2.36)	0.129♥	(0.101♥)	0.02†	(0.01)	nil	-	nil	nil	nil
Walbroughs	6 mths to June 30	105	(94)	6.62♠	(10.07)	9.29	(9.89)	2.75	Nov 6	2.5	-	9.5

Investment Trusts		NAV (p)		Attributable Earnings (				Current	Date of	Corresponding	Total for	Total last
Glasgow Income	6 mths to June 30	-	(-)	-	(-)	-	(-)	0.6	Nov 29	0.6	-	2.8
HTR Japanese ☆	Year to July 31	103.3	(80.3)	0.665L	(0.588L)	0.68L	(0.59L)	nil	-	nil	nil	nil
Prolific Income	Year to July 31	120.55	(108.7)	2.26	(1.75)	4.36	(3.37)	2.45	Oct 31	2.25	4.05	3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ☆Comparatives restated. #Comparatives for 16 months. ♣Irish currency. ■Comparatives for 6 months to December 31.

هكذا من الاصل

COMPANIES AND FINANCE: UK

Roxboro shares slump 25% as destocking prompts downgrade

By Jane Martinson

Shares in Roxboro dropped 25 per cent yesterday, as the specialist electronics group warned weak demand for components would depress this year's profits.

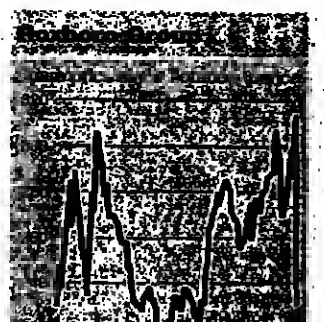
At the same time, the group revealed a fall in interim pre-tax profits from £8.16m ($12.7m) to £8m, following start-up costs and manufacturing difficulties.

The warning that second-half profits would be about £8m prompted analysts to cut full-year forecasts by £2m to £16m, the same as 1995. The shares fell 80½p to 232½p, their lowest for more than a year.

Mr Harry Tee, group chief executive, said the worldwide slump in demand for electronic components had led to a "significant, sharp decline" in orders and sales in July and August. He said the downturn in a division which contributes about half of group sales resulted from a "massive destocking" in an industry which "went crazy" in 1995.

"I think to some extent this is a correction in the marketplace. There is nothing structurally wrong, we have not lost market share or customers."

Acquisitions helped lift interim sales 20 per cent from £45.8m to £55.1m in the six months to June 30. Operating profits rose 3 per cent from £8.06m to £8.8m.



Profits were hit by start-up costs of £1m associated with a new range of truck and bus lights. After further charges in the second half, Roxboro said the division should begin to break even at the beginning of 1997.

Manufacturing problems in two companies also hit profits, connected with a number of new products last year, and central costs increased by about £200,000 to £1.6m, after introduction of a long-term incentive plan for senior management.

A number of acquisitions last year led to net debt of £7.6m, representing gearing of 32 per cent, compared with cash of £6.3m in 1995.

Phoenix Inns pays £250m for Spring

By Roderick Oram, Consumer Industries Editor

Phoenix Inns, backed by Nomura, the Japanese investment bank, is to become one of the largest pub chains in the UK with the £250m ($390m) purchase of Spring Inns from a consortium of financial institutions.

Run by Mr James Turner, one of four executives on secondment from Nomura, the enlarged Phoenix is considering a flotation within two or three years as one way for its backers to realise their investment.

With the acquisition of Spring Inns' 1,406 pubs, Phoenix will have 2,900, giving it a similar size to Inntrepreneur Pub Company.

"Spring Inns will give Phoenix greater purchasing power and make it a better proposition for Nomura's investors," one analyst said.

The deal is the latest in a flurry in recent years which have swung pub ownership away from brewers and into the hands of independent companies.

Nomura is offering financial advice to the company, but Phoenix will fund the purchase with debt from other sources, Mr Turner said.

Taylor Woodrow up 81% helped by contracting side

By Simon London

Improved performance from UK contracting helped Taylor Woodrow, the construction and property group, increase pre-tax profits from £14m ($22m) to £25.4m in the six months to June.

The result included a £2m charge to cover the cost of closing Myton, the group's refurbishment business, after an £8.3m restructuring charge last time.

Taylor Woodrow also said Mr Tony Palmer, chief executive since 1990, would retire next June.

Mr Colin Parsons, executive chairman, said the board would consider internal and external candidates for the post and hoped to name a replacement before full-year results are announced in March.

Turnover rose from £547m to £556m, with a decline in contracting offset by higher housing sales.

The group continued to turn away contracting work which it regards as uneconomic. Construction turnover declined from £320m to £286m as a result, with the bulk of the fall in UK general contracting.

The construction division reduced its pre-tax deficit from £10.7m to £1.2m, including Myton closure costs. Mr Parsons said UK construction was on target to break even over the full year, but warned that margins on overseas contracting were under pressure as more companies competed for work.

Housing profits increased from £9.1m to £9.6m on turnover up from £116m to £150m. Mr Parsons said that Taywood Homes, the groups UK housebuilding subsidiary, aims to complete 1,800 units this year, an increase of 30 per cent.

In contrast, overseas housebuilding suffered from poor market conditions in Canada and Australia.

The contribution from commercial property was £9.6m (£8.7m), with no material disposals taking place in the period. In March, Taylor Woodrow said it planned to redeploy capital out of property and into housing.

Greenham, the group's building materials supply business, increased pre-tax profits from £3.2m to £3.6m.

The interim dividend is increased by 33 per cent to 1p (0.75p), partly to rebalance the pay-out in favour of the half-year. The shares lost 3p to close at 173p.

Lydia van der Meer

Colin Parsons warned margins were under pressure as more companies competed for work

Throgmorton sells stake in Framlington

By Roger Taylor

Throgmorton, the £360m ($562m) investment trust, has sold its 49 per cent holding in Framlington, the UK investment management group, to Munder Capital Management, a US investment management company.

Munder is paying up to £33m for 49 per cent of Framlington in a deal which values the company at 2.8 per cent of funds under management.

Framlington manages funds worth £2.3bn including the Throgmorton Trust.

Munder, based in Michigan, said it had been hunting for a UK investment partner for more than three years. With $36bn under management, it is among the top 75 US investment managers but has very few investments outside the US.

NatPower aims to lift rating

By Simon Holberton

National Power, Britain's biggest electricity generator, today begins a campaign to improve its stock market rating at a day-long presentation to 70 institutional investors and analysts.

The company is expected to highlight the value in its foreign operations and their potential contribution to future earnings.

Pre-tax profits from overseas operations amounted to only £15m out of a total of £808m in the year to March. Profits are expected to accelerate as the overseas ventures move from start-up to full scale operation.

National Power can, however, expect tough questioning from analysts who believe it has paid too much for Australian and US generating assets.

Mr Keith Henry, chief executive, signalled in an interview yesterday that National Power will begin to defend its share of the generation market. The sale of 4,000MW of plant to Eastern Group, part of Hanson, would take National Power's share of generation below 25 per cent.

"I think we'll stick a peg in the ground at around 23 per cent," he said.

Mr Henry said National Power was well placed to take advantage of liberalisation of the electricity supply market, due in 1998. It was pursuing a joint venture, which might include regional electricity companies and a high street retailer.

The venture would need to have access to 4m-5m customers to be a sensible proposition for National Power. "If not, we will be content to stay in the wholesale market and serve big customers."

INTERNATIONAL CAPITAL MARKETS

Europe outperforms US on Emu hopes

By Peter John in London and Lisa Bransten in New York

European bond markets outperformed the US yesterday, with expectations that European monetary union will proceed on schedule buoyed by news from the Franco-German summit.

Emu enthusiasm was undermined later in the day by recurrent concern about rising US interest rates. But many European markets remained in positive territory, reflecting what one economist considered the strongest evidence of decoupling seen so far this year.

■ In Germany, bunds rose sharply after Mr Hans Tietmeyer, the president of the Bundesbank, announced that he would press for the strictest possible interpretation of the Maastricht convergence criteria.

Specifically, analysts pointed to the stress placed by Mr Tietmeyer on budget deficits of Emu member countries not being greater than 3 per cent of gross domestic product.

The comments were seen as aimed at increasing investor confidence and levelling out a yield curve, which Mr Tietmeyer said was unnecessarily steep. The spread between the repo rate and 10-year bunds is more than 300 basis points.

US concerns dragged the benchmark 10-year bund back to close only 6 basis points higher at a yield 6.17 per cent.

Germany also gave details of today's auction of two-year paper. The debt will carry a coupon of 3.5 per cent, the bottom of the forecast range.

■ French paper remained firm in the wake of the summit and ahead of today's cost-cutting budget. Also, the Treasury said it would offer between FFr17bn and FFr19bn of 1998 and 2001 BTANs at its next scheduled auction, tomorrow. Yields on the 7.25 per cent OATs due 2006 eased slightly to 6.15 per cent.

■ Spanish debt hit new highs ahead of official comments that suggested a further reduction in key interest rates.

GOVERNMENT BONDS

Bonos jumped sharply, with the 10-year yield falling 8 basis points to 8.33 per cent and the 10-year spread over bunds falling to 216 basis points from 223 points on Monday.

Spain's budget office director said the government would cut spending by Pta800bn to meet 1997 European convergence criteria for the public deficit.

The 1997 budget is to be presented to parliament this month and Mr Jose Barea said spending would "be reduced by around 2 per cent compared with the final budget for this year".

Mr Craig Shute, economist at Bear Stearns, said: "By delivering a package of austerity for the 1997 budget, the government will raise the prospect of the Bank of Spain cutting the key [repo] rate by a half a point." The Spanish repo rate is 7.25 per cent.

■ In the UK, news of a higher than expected public sector borrowing requirement took the shine off gilts.

A deficit of £4.53bn in August, compared with estimates of about £4.1bn, cast doubt on the government meeting its funding target for the year and also on the scope for pre-election tax cuts. Ten-year gilts fell $\frac{1}{32}$ to 98$\frac{1}{32}$.

The Bank of England announced it would auction £3bn of 25-year, 8 per cent gilts next Wednesday. The issue will be fungible and strippable.

■ Dutch bonds rose after the finance ministry unveiled a 1997 borrowing requirement of Fl 33.5bn, compared with a downwardly revised Fl 35.1bn in 1996. The government will also use cash reserves to reduce the Fl 33.5bn requirement by about Fl 10bn.

The 10-year benchmark yield fell to 6.06 per cent with the price rising 25 basis points.

■ The yield on the benchmark 30-year US Treasury touched 7 per cent briefly in early afternoon trading yesterday amid reports that a majority of Federal Reserve officials favoured an increase in interest rates.

Near 1.30pm, the long bond had regained some ground but was still down $\frac{1}{32}$ at 96$\frac{1}{32}$ to yield 6.987 per cent. Movement was even sharper at the short end of the maturity spectrum, where the two-year note was $\frac{1}{32}$ weaker at 99$\frac{1}{32}$, yielding 6.21 per cent.

Mexico increases global deal to $1bn

By Samer Iskandar

Primary market officials at other houses were surprised yesterday when Goldman Sachs and Merrill Lynch announced they were increasing the amount of Mexico's planned $750m 20-year global bond to $1bn, while tightening the pricing from an indicated 450-462 basis point spread over the long bond to 445 basis points.

INTERNATIONAL BONDS

"To do thet, they must have felt very confident investors would not lose interest," one banker said.

However, most professionals said the decision did not seem unsettle investors. "[The lead managers] ran the risk of destroying investors' expectations," said one senior banker in London. "But they seem to be getting away with it."

Mexico has taken advantage of favourable market conditions in the capital markets to raise more than $14bn in long-term sovereign debt this year. It has used the funds to retire more expensive debt.

Two other global deals in dollars hava been announced. Ford Motor Credit will price its $1bn of five-year bonds today at 48-50 basis points over Treasuries, while the Student Loan Marketing Association (Sallie Mae) issued a total of $1.5bn in three tranches.

Two smaller issnes, of $250m each, were launched by the Metropolis of Tokyo and Bayer Corp. The first, with a 10-year maturity, tapped institutional demand from continental Europe (35 per cent) and the UK (25 per cent). Launched with a spread of 28 basis points, it rapidly tightened by one basis point, according to IBJ, the lead manager.

Bayer's paper, with a five-year maturity, was aimed more at German, Swiss and Benelux retail investors. Lead manager Deutsche Morgan Grenfell said it benefited from rarity value, being the borrower's first eurodollar bond in two years.

Elsewhere, Barclays Bank issued Y20bn of exotic etep-up floating-rate notes. The quarterly coupon of Libor plus 10 basis points is increased to Libor plus 60 points after the fifth year if the borrower does not exercise its call option.

Lead manager BZW said the structure was inspired by a similar deal it launched two months ago denominated in D-Marks. Just over one-third of the new bonds were placed outside Japan, mainly in Europe.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Ford Motor Credit Co	1bn	(a)§	(a)R	Sep 2001	0.35R	(a)(6¼%-01)	Goldman Sachs & Co
United Mexican States(b)	250	(b1,a)#	(b1)R	Sep 2015	1.00R	+445(6⅝%-26)	Goldman/Merrill Lynch
Metropolis of Tokyo	250	7.125	99.98R	Oct 2006	0.325R	+28(7%-06)	IBJ International
Bayer Corporation	250	6.75	99.745R	Oct 2001	0.25R	+20(6½%-01)	Deutsche Morgan Grenfell
YEN							
Barclays Bank(c)‡	20bn	(c1,)	100.20	Oct 2006	0.40	-	Barclays de Zoete Wedd
SWISS FRANCS							
Bayerische Vereinsbank	150	4.50	102.15	Oct 2006	2.75	-	Credit Suisse

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today 48-50bp over Treasuries. b) Issue launched on Monday was increased to $1bn. b1) Priced today. c) Callable from Oct 2001 at par. c1) 3-mth Libor +10bp to Oct 2001, then +60bp. § Long 1st coupon. s) Short 1st coupon.

Lebanese group close to making GDR issue

By Samer Iskandar and Roula Khalaf

Solidere, the Lebanese company in charge of reconstructing Beirut's commercial district, is in the final stages of issuing Global Depositary Receipts, bankers said yesterday.

A road-show is planned next month and the GDRs - paper traded in lieu of underlying shares - are likely to be issued by mid-October. They are expected to be listed on the London Stock Exchange. Merrill Lynch, which refused to comment on the deal, is lead manager. Flemings and ING are also involved.

Although the amount is not yet fixed, bankers believe it will be in the region of $100m. Reports of an imminent issue have been circulating in the local market since early this year.

Solidere is Lebanon's largest company, with a capital base of $1.82bn, including $1.17bn in property and $650m from a domestic share issue in 1994. Mr Rafic Harb, the prime minister, is the single largest shareholder with a 6 per cent stake.

Demand for its shares has been dampened by the company's by-laws, which allow only Lebanese and Arabs to hold the stock. Sales by property right holders who were given shares have also capped the performance. Bankers hope the GDR issue will bolster the price by attracting international institutions with long-term investment horizons.

Solidere shares, listed on the Beirut secondary market, closed yesterday at $114%, up $2¾. In the last two weeks, they have risen around 10 per cent.

Borrowers from the periphery win finer terms

By Richard Lapper, Capital Markets Editor

Rates are falling and tenors becoming longer on syndicated loans to borrowers from the "European periphery". With margins wafer-thin on loans to the most creditworthy western European borrowers, banks are bidding fiercely for business from eastern Europe, as well as countries such as Israel, Greece, and Turkey.

SYNDICATED LOANS

The terms on a seven-year $200m loan for the State of Israel, the mandate for which was awarded yesterday, are likely to reflect these pressures. According to bankers, rates for the loan are likely to be well inside the levels agreed on an earlier facility in 1995.

Last year, Israel borrowed $100m over five years, with a four-year element priced at 45 basis points over Libor and a fifth year at a margin of 50 basis points.

NatWest Markets (which will co-ordinate the books on the deal), Bank Hapoalim (the agent), Banque Nationale de Paris, Bayerische Landesbank and Dai-Ichi Kangyo Bank (documentation) were awarded the mandate. Syndication is expected shortly.

In eastern Europe, loans to two Slovakian utilities are particular focuses of attention. Slovenska Telekomunikatie, the telecoms company, is understood to be borrowing $100m over five years at 45 basis points over Libor. Bankers say Slovenska Elektrarne is also looking to re-enter the market and suggest it would be likely to seek easier terms than the 87½ basis points over Libor on the $150m it borrowed in May.

Hungarian borrowers have also seen prices fall, although this has been influenced by the country's entry this year into the OECD, which means banks lending to the country and to state-guaranteed borrowers need not set aside any capital against their loans.

For example, One Hungarian borrower, the Central European International Bank, is borrowing $100m over five years at a spread of 30 basis points over Libor.

Elsewhere, UBS said on Monday it had been selected to underwrite $660m of bank financing for a 550MW coal-fired power project at Quezon in the Philippines. The deal reflects the trend for project finance sponsors to combine bank and capital markets finance.

Proceeds from the loans will be supplemented by a $200m equity investment by Fieldstone Private Capital Group, a specialist merchant bank and, if necessary, by a bond issue placed with US institutional investors under the Securities and Exchange Commission's rule 144a.

The project's sponsors - International Generating Company (Intergen), a power generation company; Ogden Energy, a power plant operator; and PMR, a Philippine power development company - will sell power to the Manila Electric Company with a 25-year power sales agreement.

Ogden said the build-own-operate project would be one of the first private sector generation facilities located in a developing country selling power to a privately-owned utility.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		8.750	11/06	81.6080	+0.330	7.97	8.13	8.14
Austria		6.250	05/06	100.1700	+0.200	6.12	6.28	6.32
Belgium		7.000	05/06	104.2700	+0.110	6.39	6.57	6.65
Canada *		7.000	12/06	97.7000	-0.180	7.32	7.41	7.32
Denmark		8.000	03/06	106.0400	+0.240	7.09	7.30	7.28
France	BTAN	5.500	10/01	100.8320	+0.040	5.31	5.47	5.44
	OAT	7.250	04/06	107.7500	+0.140	6.15	6.36	6.33
Germany Bund		6.250	04/06	100.5500	+0.060	6.17	6.33	6.30
Ireland		8.000	08/06	105.4100	+0.360	7.21	7.58	7.58
Italy		8.500	02/06	103.3500	+0.100	6.96†	9.14	9.22
Japan	No 140	6.600	06/01	120.9511	+0.070	1.50	1.85	2.21
	No 182	3.000	09/05	101.2545	+0.540	2.83	2.94	3.19
Netherlands		8.500	06/06	117.4200	+0.250	6.06	6.25	6.27
Portugal		11.875	02/05	121.4900	+0.420	8.22	8.49	8.65
Spain		8.800	04/06	102.8300	+0.550	8.33	8.64	8.86
Sweden		6.000	02/05	89.5635	+0.390	7.73	8.06	8.22
UK Gilts		6.000	12/00	103-24	-2/32	6.95	7.07	7.06
		7.500	12/06	98-11	-3/32	7.73	7.88	7.79
		9.000	10/08	108-18	-8/32	7.88	8.01	7.91
US Treasury *		7.000	07/06	101-15	-14/32	6.77	6.92	6.53
		6.750	08/26	96-29	-17/32	7.00	7.10	6.81
ECU (French Govt)		7.000	04/06	102.7600	+0.290	6.59	8.75	8.79

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

		One month	-	Two year	6.14
Prime rate	8¼	Two month	-	Three year	6.32
Broker loan rate	7	Three month	5.20	Five year	6.62
Fed.funds	5¼	Six month	5.41	10-year	6.75
Fed.funds at intervention	-	One year	5.77	30-year	6.96

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	123.86	124.06	+0.20	124.22	123.78	131,227	204,459
Mar	123.76	123.96	+0.20	124.10	123.66	1,745	16,902
Jun	123.08	123.28	+0.20	123.08	123.08	2	88

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
120	-	-	-	-	-	0.10
121	-	-	3.02	-	0.06	0.16
122	2.04	-	2.30	0.01	0.15	0.30
123	1.11	1.37	-	0.06	0.30	0.52
124	0.31	0.70	0.96	0.25	0.61	0.88

Est. vol. total, Calls 48,279 Puts 32,481. Previous day's open int., Calls 123,548 Puts 126,910.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.09	98.13	+0.17	98.36	97.92	179245	212338
Mar	97.00	97.18	+0.15	97.17	97.00	21	1538

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Oct	Nov	Dec	Mar	PUTS Oct	Nov	Dec	Mar
9800	0.28	0.64	0.88	0.85	0.15	0.51	0.73	1.69
9850	0.08	0.40	0.61	0.68	0.45	0.77	0.88	2.02
9900	0.02	0.23	0.41	0.51	0.89	1.10	1.28	2.35

Est. vol. total, Calls 22297 Puts 22512. Previous day's open int., Calls 141668 Puts 146341

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	117.79	117.91	+0.17	118.33	117.59	58560	68832
Mar	117.19	117.21	+0.13	117.18	117.1e	150	550

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	Mar	PUTS Dec	Mar
11750	1.50	1.67	1.09	2.18
11800	1.22	1.62	1.31	2.41
11850	0.97	1.38	1.56	2.67

Est. vol. total, Calls 11302 Puts 3223. Previous day's open int., Calls 72755 Puts 99655

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	103.79	+0.29	-	-	-	20,965
Dec	103.20	103.64	+0.58	104.18	103.05	90,812	69,845

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	108-18	108-18	-0-02	108-27	108-15	1111	17044
Dec	107-31	107-27	-0-02	108-08	107-21	60123	113561

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Oct	Nov	Dec	Mar	PUTS Oct	Nov	Dec	Mar
107	0-59	1-20	1-41	1-59	0-05	0-30	0-51	1-51
108	0-17	0-46	1-04	1-28	0-27	0-56	1-14	2-20
109	0-02	0-21	0-41	1-03	1-12	1-31	1-51	2-68

Est. vol. total, Calls 145 Puts 127. Previous day's open int., Calls 21081 Puts 17341.

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	91.98	92.22	+0.24	92.36	91.94	1,325	7,139

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	109-09	109-02	-0-09	109-10	109-04	14,804	46,732
Dec	108-27	108-1e	-0-10	108-28	108-18	134,840	360,558
Mar	108-12	108-04	-0-08	108-12	108-04	3,222	20,973

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	122.10			122.23	121.92	2570	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Sep 17	Day's change %	Mon Sep 16	Accrued interest	xd adj. ytd		Low coupon yield Sep 17	Sep 16	Yr. ago	Medium coupon yield Sep 17	Sep 16	Yr. ago	High coupon yield Sep 17	Sep 16	Yr. ago
1 Up to 5 years (22)	121.80	0.01	122.07	2.14	7.33	5 yrs	7.07	7.06	7.45	7.15	7.14	7.48	7.19	7.16	7.55
2 5-15 years (20)	148.96	-0.09	149.20	2.94	7.61	15 yrs	7.98	7.96	7.97	7.99	7.97	8.00	7.99	7.98	8.07
3 Over 15 years (9)	163.04	-0.20	163.37	3.06	8.84	20 yrs	8.09	8.06	8.01	8.09	8.06	8.03	8.09	8.06	8.09
4 Irredeemables (6)	187.70	-0.37	188.39	4.36	7.38	Irred.†	8.15	8.12	8.06						
5 All stocks (56)	143.23	-0.08	143.50	2.70	7.76										

Index-linked							Inflation 5% Sep 17	Sep 16	Yr. ago	Inflation 10% Sep 17	Sep 16	Yr. ago
6 Up to 5 years (1)	200.97	0.02	200.94	3.52	4.43	Up to 5 yrs	1.14	1.14	2.86	-0.86	-0.86	1.72
7 Over 5 years (11)	189.97	0.02	189.93	1.14	3.85	Over 5 yrs	3.56	3.56	3.54	3.33	3.33	3.33
8 All stocks (12)	190.09	0.02	190.04	1.19	3.88							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 17	Sep 16	Sep 13	Sep 12	Sep 11	Yr ago	High*	Low*
Govt. Secs. (UK)	93.32	93.45	93.28	92.83	92.86	94.32	96.34	91.59
Fixed Interest	113.18	113.24	113.1	112.93	112.87	118.09	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Sep 16	Sep 13	Sep 12	Sep 11	Sep 10
Gilt Edged bargains	92.2	85.8	81.0	80.3	86.3
5-day average	85.1	81.7	79.8	76.7	74.9

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on September 17

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	97½	97¾	-⅛	6.97
ABN Amro Bank 7¼ 00	1500	99½	99¾	-⅛	7.46
African Dev Bk 7¾ 23	500	95⅝	96¼	-⅛	7.76
Alberta Province 7¾ 96	1500	102⅝	102½	-⅛	6.38
Asian Dev Bank 6¼ 00	750	95	95¼	-⅛	7.12
Sweden 6 97	2500	100	105⅛		3.41
United Kingdom 7¼ 97	5500	104	104⅛		3.39
Volkswagen Intl Fin 7 00	1500	105	105⅛		6.06
World Bank 0 15	2000	33⅛	33½	+⅞	5.90
World Bank 5⅞ 03	3000	100⅞	101⅛	-⅛	5.72
Abbey Natl Treasury 8 00 £	1500	101½	101⅝		7.66
British Land 8⅞ 23 £	150	92	92½	-⅛	9.85
Denmark 6¾ 98 £	500	100½	100⅝		6.46
Depfa Finance 7⅞ 98 £	500	96¾	96⅞		7.73
EIB 6 03 £	1000	102½	102⅝	-⅛	7.50
Glaxo Wellcome 8¾ 00 £	500	103¼	103⅜		8.22
[illegible]					

UK GILTS PRICES

	Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Shorts" (Lives up to Five Years)							
Treas 2pc 1995		0.91	-	220⅞xd	—	220⅞	212⅝
Conversion 10pc 1996		9.94	5.77	100⅞	+⅛	103⅛	100⅝
Treas 13¼pc 1997‡‡		12.94	5.86	102⅝	—	108⅝	100½
Exch 10½pc 1997		10.30	5.71	101⅝	-⅛	107⅛	101⅝
Treas Cnv 7pc 1997‡‡		6.93	5.74	101⅛	—	101⅝	99⅝
Treas 8¾pc 1997‡‡		8.52	5.81	102⅝xd	-⅛	107⅝	102⅝
[illegible]							

CURRENCIES AND MONEY

MARKETS REPORT

Emu speculation boosts dollar and franc

By Richard Adams

The US dollar and French franc rose against the D-Mark on currency markets yesterday, after a blizzard of comments supporting European monetary union and further claims that US interest rates will soon be cut.

The finance ministers and central bank chiefs of France and Germany concluded a meeting in Germany with series of statements outlining the path towards Emu. Meanwhile, Mr Helmut Kohl, Germany's chancellor, said that the first round of Emu would consist of five to seven members.

In the US, the Reuters news agency quoted a source at the Federal Reserve, who claimed that "eight out of the 12" district banks in the Federal Reserve wanted interest rates to rise.

The pro-dollar, pro-Emu sentiment that gripped the market led to gains in Europe for the dollar, after a listless performance at the start of the week.

It rose against the D-Mark to end at DM1.5143 at the close of trading, from DM1.5095 the previous day.

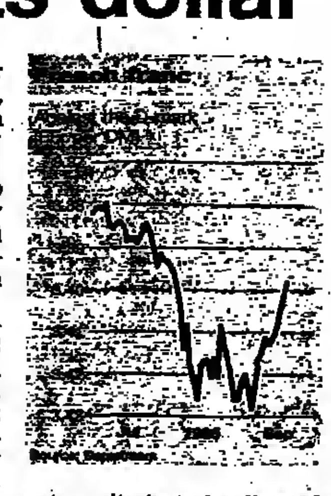
The French franc benefited from the D-Mark's decline, breaking through important resistance levels against the D-Mark around FFr3.40. It closed at FFr3.3978, its lowest level since August 6. The Swedish krona also leapt up against the D-Mark, to SKr4.378 from SKr4.396.

Sterling gained on the back of the dollar's rise and news of a higher than expected government budget deficit for August. The pound was worth DM2.3548, from DM2.350. Against the dollar it traded in tight ranges, closing at $1.5551, from $1.5568.

■ The D-Mark's fall came after Emu was robustly defended by the assembled French and German ministers and central bankers in Kempten yesterday.

Mr Mark Cliffe, chief international economist at HSBC Markets in London, said: "Whenever the French and German ministers get together they make supportive noises about monetary union, and we saw that again."

Asked if any leniency will be applied in interpreting the Emu criteria of the Maastricht treaty, Mr Hans Tietmeyer, the Bundesbank president said: "That has to wait for the formal evaluation period," in Spring 1998. Mr Tietmeyer's comments were interpreted by analysts as allowing a more flexible



entry criteria to be dictated by politicians.

Mr Tony Norfield, treasury economist at ABN Amro in London, said: "Mr Tietmeyer was making the explicit point that it's all ultimately the politicians' decision."

Mr Tietmeyer also said that Germany and France must still make major steps for a solid European currency union, and that the criteria for entry must be "properly" applied.

Meanwhile, Mr Kohl was telling an audience in Argentina that would be five to seven original members of Emu. "There will be five, six or seven, in any case a sufficient number," Mr Kohl said.

■ The weakening of the D-Mark is good news for the French franc, which has been enjoying its best period since the spring. But Mr Cliffe warned: "The big question is, can the French franc consolidate over FFr3.40?"

Mr Norfield said that the franc's next major resistance level was at FFr3.3970 and its June 19 high at FFr3.3975. If that breaks down, the the franc could go all the way up to FFr3.38.

Mr Cliffe said the next major focus for the markets will be on the minister's meeting in Dublin this weekend. The Dublin meeting has scope for details of the proposed Emu stability pact, and 'ERM II', the future exchange rate mechanism linking currencies outside Emu to the Euro.

■ Eight of the 12 district banks in the Federal Reserve System have requested a rise in the 5 per cent discount rate amid mounting evidence the pace of US expansion is likely to be brisk in the second half of 1996, Reuters reported a senior Fed official as saying.

■ Pound in New York

Sep 17	— Latest —	— Prev. close —
£ spot	1.5550	1.5575
1 mth	1.5546	1.5570
3 mth	1.5540	1.5563
1 yr	1.5466	1.5472

■ OTHER CURRENCIES

Sep 17	£	$
Czech Rp	41.2327 - 41.2903	26.5230 - 26.5430
Hungary	238.144 - 238.378	153.300 - 153.380
Iran	4665.00 - 4669.00	3000.00 - 3002.00
Kuwait	0.4660 - 0.4667	0.2999 - 0.3000
Poland	4.2257 - 4.3300	2.7125 - 2.7835
Russia	8371.29 - 8387.60	5390.00 - 5392.00
UAE	5.7094 - 5.7139	3.6726 - 3.6731

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WORLD INTEREST RATES

MONEY RATES

September 17	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.35	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	8.25	8.50
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	8.25	8.56
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.13	5.21	5.35	5.64	-	-	-
week ago	-	5.13	5.34	5.50	5.82	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	4½	4¼	4½	4½	-	-	-
SDR Linked Ds	-	3⅛	3⅜	3½	3⅝	-	-	-
week ago	-	3⅛	3⅜	3½	3⅝	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 17	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2¹³⁄₁₆	3⅛ - 2¹³⁄₁₆	3⅛ - 3	3⅜ - 3⅛	3⁷⁄₁₆ - 3⁵⁄₁₆	3¹¹⁄₁₆ - 3¼
Danish Krone	3½ - 3¼	3½ - 3⅜	3¾ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 4
D-Mark	3 - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅜ - 3¼
Dutch Guilder	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	3⅛ - 3
French Franc	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾
Portuguese Esc.	7¼ - 7⅛	7¼ - 7⅛	7⅛ - 7	7⅛ - 7	7⅛ - 7	7⅛ - 7
Spanish Peseta	7⅛ - 7	7⅛ - 7	7⅛ - 7	7 - 6⅞	7 - 6⅞	7 - 6⅞
Sterling	5½ - 5¼	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾	6⅛ - 6
Swiss Franc	1⅝ - 1½	1⅝ - 1½	1⅞ - 1¾	2 - 1⅞	2⅛ - 1⅞	2¼ - 2⅛
Can. Dollar	4⅛ - 3⅞	4⅛ - 3⅞	4 - 3⅞	4 - 3⅞	4⅛ - 4	4⅝ - 4½
US Dollar	5½ - 5⅜	5⅜ - 5¼	5⅜ - 5¼	5⅝ - 5½	5¾ - 5⅝	6 - 5⅞
Italian Lira	8⅞ - 8⅝	8½ - 8⅜	8½ - 8⅜	8½ - 8⅜	8⅜ - 8¼	8⅜ - 8¼
Yen	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	½ - ⅜	¾ - ⅝
Asian $Sing	2⅝ - 2½	2⅞ - 2¾	2⅞ - 2¾	3⅛ - 2⅞	3⅛ - 3	3⅜ - 3¼

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.20	96.22	+0.04	96.25	96.17	38,703	64,048
Mar	96.16	96.17	+0.04	96.20	96.13	10,862	37,172
Jun	96.04	96.05	+0.04	96.07	95.99	4,897	23,903

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.81	96.81	-	96.83	96.80	35275	225951
Mar	96.72	96.71	-	96.75	96.70	30269	214231
Jun	96.52	96.52	-	96.58	96.51	31415	158630
Sep	96.24	96.25	-	96.32	96.23	24281	119794

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.03	92.03	+0.01	92.07	92.00	15515	58169
Mar	92.33	92.35	+0.02	92.39	92.32	3550	29128
Jun	92.44	92.49	+0.04	92.50	92.44	1806	22657
Sep	92.46	92.49	+0.03	92.53	92.46	1414	11115

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.90	97.91	+0.01	97.94	97.89	5763	46681
Mar	97.78	97.78	+0.02	97.98	97.78	3436	17067
Jun	97.57	97.58	+0.02	97.91	97.57	1169	6032
Sep	97.34	97.33	+0.02	97.36	97.33	637	1606

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.34	99.32	-0.01	99.34	99.32	1000	n/a
Mar	99.16	99.14	-0.01	99.16	99.14	2483	n/a
Jun	98.99	98.95	-0.01	98.99	98.97	195	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.80	95.78	-	95.80	95.77	1432	8476
Mar	95.73	95.75	+0.01	95.78	95.73	347	3439
Jun	95.61	95.61	+0.01	95.66	95.61	244	3014
Sep	95.41	95.40	+0.02	95.45	95.40	126	1762

* LIFFE futures also traded on APT

POUND SPOT FORWARD AGAINST THE POUND

Sep 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5697	+0.0338	601 - 793	16.5795	16.5292	16.5385	2.3	16.4935	2.6	-	-	105.0
Belgium	(BFr)	48.4800	+0.1026	413 - 347	48.5450	48.3650	48.395	2.4	48.203	2.4	47.433	2.2	108.7
Denmark	(DKr)	9.0637	+0.0159	592 - 681	9.0650	9.0412	9.05	1.8	9.0297	1.5	8.9216	1.6	107.6
Finland	(FM)	7.0714	+0.0090	633 - 795	7.1080	7.0500	7.067	0.7	7.0589	0.7	-	-	85.2
France	(FFr)	8.0012	-0.0037	972 - 051	8.0081	7.9692	7.987	2.1	7.963	1.9	7.8683	1.6	108.7
Germany	(DM)	2.3548	+0.0046	535 - 561	2.3562	2.3433	2.3499	2.5	2.3403	2.5	2.298	2.4	108.4
Greece	(Dr)	374.872	+0.461	674 - 071	375.629	372.853	-	-	-	-	-	-	67.1
Ireland	(I£)	0.9673	+0.0008	665 - 680	0.9682	0.9657	0.9668	0.6	0.9662	0.7	0.9611	0.6	103.2
Italy	(L)	2372.82	+4.57	131 - 433	2376.03	2366.46	2378.57	-2.9	2386.22	-2.4	2420.72	-2.0	75.8
Luxembourg	(LFr)	48.4800	+0.1026	413 - 347	48.5450	48.3650	48.393	2.4	48.203	2.4	47.433	2.2	108.7
Netherlands	(Fl)	2.6390	+0.0045	374 - 405	2.6435	2.6260	2.6329	2.8	2.6208	2.7	2.5732	2.5	108.8
Norway	(NKr)	10.0727	+0.0062	676 - 775	10.1263	10.0370	10.0642	1.0	10.0472	1.0	9.9887	1.1	98.2
Portugal	(Es)	240.461	+0.961	326 - 696	240.648	240.001	240.906	-2.1	241.811	-2.2	-	-	95.4
Spain	(Pta)	198.466	+0.421	338 - 595	198.648	198.004	198.745	-1.6	199.26	-1.6	200.86	-1.1	80.5
Sweden	(SKr)	10.3098	-0.0213	953 - 183	10.3464	10.2916	10.3001	0.0	10.3092	0.0	10.3041	0.0	83.0
Switzerland	(SFr)	1.9341	+0.0039	330 - 352	1.9357	1.9264	1.9291	3.1	1.9183	3.3	1.8701	3.3	111.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.1
Ecu	-	1.2420	+0.0008	412 - 428	1.2438	1.2394	1.2407	1.3	1.2377	1.4	1.2244	1.4	-
SDR†	-	1.074600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5549	-0.0017	543 - 554	1.5574	1.5528	-	-	-	-	-	-	-
Brazil	(R$)	1.5845	-0.0018	841 - 856	1.5864	1.5827	-	-	-	-	-	-	-
Canada	(C$)	2.1314	-0.0021	303 - 324	2.1345	2.1294	2.1307	0.4	2.1271	0.5	2.119	0.6	84.1
Mexico	(New Peso)	11.6757	-0.0237	642 - 872	11.6888	11.6590	-	-	-	-	-	-	-
USA	($)	1.5551	-0.0017	548 - 556	1.5577	1.5530	1.5548	0.4	1.5542	0.2	1.5569	-0.1	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.9677	-0.0073	664 - 689	1.9753	1.9647	1.9703	-1.6	1.9753	-1.5	2.0008	-1.7	93.4
Hong Kong	(HK$)	12.0252	-0.0127	209 - 295	12.0441	12.0098	12.0171	0.8	12.0056	0.7	11.9857	0.3	-
India	(Rs)	55.5172	-0.0607	883 - 460	55.5930	55.1850	-	-	-	-	-	-	-
Israel	(Shk)	4.9299	-0.0021	244 - 353	4.9395	4.9233	-	-	-	-	-	-	-
Japan	(Y)	171.257	-0.444	270 - 474	171.680	171.070	170.647	5.1	169.157	5.2	162.742	5.0	132.4
Malaysia	(M$)	3.8814	-0.0078	793 - 834	3.8890	3.8771	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2266	-0.0152	240 - 271	2.2429	2.2214	2.2306	-2.7	2.2401	-2.6	2.2739	-2.2	110.1
Philippines	(Peso)	40.7903	-0.0446	150 - 656	40.8778	40.7062	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8324	-0.0068	302 - 346	5.8416	5.8248	-	-	-	-	-	-	-
Singapore	(S$)	2.1982	-0.0019	957 - 967	2.1974	2.1925	-	-	-	-	-	-	-
South Africa	(R)	6.9770	-0.0084	708 - 831	6.9832	6.9700	-	-	-	-	-	-	-
South Korea	(Won)	1268.94	-1.26	792 - 996	1281.75	1267.75	-	-	-	-	-	-	-
Taiwan	(T$)	42.7866	-0.0437	484 - 914	42.8278	42.7199	-	-	-	-	-	-	-
Thailand	(Bt)	39.4918	-0.0648	713 - 122	39.5810	39.4930	-	-	-	-	-	-	-

† Rates for Sep 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.6551	+0.0333	523 - 579	10.6650	10.6121	10.6366	2.2	10.5936	2.3	10.4101	2.3	104.9
Belgium	(BFr)	31.1800	+0.1	600 - 000	31.2000	31.0600	31.125	2.1	31.0175	2.1	30.515	2.1	106.5
Denmark	(DKr)	5.8284	+0.0166	257 - 300	5.8325	5.8077	5.8208	1.5	5.8039	1.7	5.7349	1.6	107.0
Finland	(FM)	4.5473	+0.0013	455 - 510	4.5603	4.5302	4.5408	1.7	4.5288	1.6	4.4833	1.4	84.4
France	(FFr)	5.1451	+0.0032	442 - 460	5.1503	5.1343	5.1378	1.8	5.1236	1.7	5.0548	1.8	108.1
Germany	(DM)	1.5143	+0.0046	139 - 146	1.5161	1.5078	1.5118	2.1	1.5058	2.3	1.4786	2.4	108.0
Greece	(Dr)	241.060	+0.58	010 - 110	242.030	240.280	242.735	-8.3	246.085	-8.3	260.06	-7.9	66.6
Ireland	(I£)	1.6078	-0.003	070 - 085	1.6115	1.6048	1.6093	-0.4	1.6092	-0.4	1.6007	0.4	-
Italy	(L)	1525.83	+3.03	535 - 631	1528.13	1522.45	1530.38	-3.4	1538.73	-3.4	1561.48	-2.3	76.4
Luxembourg	(LFr)	31.1800	+0.1	600 - 000	31.2000	31.0600	31.125	2.1	31.0175	2.1	30.515	2.1	106.5
Netherlands	(Fl)	1.6970	+0.0047	965 - 974	1.6989	1.6909	1.6937	2.4	1.6865	2.5	1.6548	2.5	106.4
Norway	(NKr)	6.4774	+0.011	752 - 792	6.5100	6.4555	6.4742	0.6	6.4695	0.5	6.4351	0.7	97.8
Portugal	(Es)	154.640	+0.42	580 - 690	154.800	154.320	154.955	-2.4	155.545	-2.3	157.69	-2.0	95.8
Spain	(Pta)	127.635	+0.41	580 - 690	127.895	127.280	127.885	-2.4	128.315	-2.1	129.865	-1.7	80.3
Sweden	(SKr)	6.6371	-0.0085	225 - 317	6.6449	6.6085	6.6362	0.2	6.6295	0.1	6.6036	0.4	89.2
Switzerland	(SFr)	1.2437	+0.0039	434 - 440	1.2455	1.2380	1.2402	3.4	1.2327	3.5	1.1992	3.6	111.0
UK	(£)	1.5551	-0.0017	548 - 556	1.5577	1.5530	1.5548	0.4	1.5542	0.2	1.5569	-0.1	85.8
Ecu	-	1.2521	-0.0023	517 - 525	1.2550	1.2501	1.2529	-0.7	1.2545	-0.8	1.2620	-0.8	-
SDR†	-	0.69270	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0162	-	160 - 163	1.0194	1.0160	-	-	-	-	-	-	-
Canada	(C$)	1.3706	+0.0001	703 - 709	1.3715	1.3702	1.3704	0.1	1.3707	0.1	1.3735	-0.2	83.4
Mexico	(New Peso)	7.5080	-0.007	080 - 130	7.5150	7.5030	7.6895	-25.8	7.6545	-18.5	9.818	-28.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2652	-0.0034	649 - 657	1.2658	1.2646	1.2672	-1.9	1.2707	-1.7	1.2894	-1.8	94.5
Hong Kong	(HK$)	7.7326	+0.0005	325 - 330	7.7335	7.7325	7.7335	-0.1	7.7353	-0.1	7.7623	-0.4	-
India	(Rs)	35.7000	-	000 - 000	35.8200	35.4790	35.85	-5.0	36.155	-5.1	37.625	-5.4	-
Israel	(Shk)	3.1701	+0.002	678 - 726	3.1726	3.1685	-	-	-	-	-	-	-
Japan	(Y)	110.200	-0.165	170 - 230	110.260	109.970	109.755	4.8	108.855	4.9	105.115	4.6	133.0
Malaysia	(M$)	2.4959	-0.0021	954 - 964	2.4985	2.4950	2.4988	-1.4	2.5029	-1.1	2.5084	-0.5	-
New Zealand	(NZ$)	1.4310	-0.0083	306 - 315	1.4326	1.4305	1.4341	-2.6	1.4399	-2.5	1.4645	-2.3	-
Philippines	(Peso)	26.2300	-	900 - 700	26.2700	26.1900	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7514	3.7502	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4115	+0.0003	111 - 121	1.4123	1.4100	1.4081	3.0	1.4021	2.7	1.3766	2.5	-
South Africa	(R)	4.4865	+0.0005	840 - 890	4.4895	4.4835	4.534	-12.7	4.624	-12.3	4.8815	-10.6	-
South Korea	(Won)	826.850	+0.1	500 - 200	829.800	827.900	-	-	-	-	-	-	-
Taiwan	(T$)	27.5030	+0.002	980 - 080	27.5100	27.4920	27.508	-0.2	27.513	-0.1	-	-	-
Thailand	(Bt)	25.3950	-0.014	900 - 000	25.4000	25.3880	25.5025	-6.1	25.6725	-4.4	26.31	-3.6	-

† SDR rate per $ for Sep 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 16: Base average 1990=100.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.69	16.50	4.857	1.994	4994	5.442	20.77	495.0	409.4	21.28	3.986	2.062	4.395	3.207	353.5	2.561
Denmark	(DKr)	53.50	10	8.827	2.598	1.067	2618	2.912	11.11	265.3	218.0	11.37	2.134	1.103	2.351	1.716	189.1	1.370
France	(FFr)	60.60	11.33	10	2.943	1.209	2966	3.298	12.59	300.6	248.1	12.89	2.417	1.250	2.663	1.944	214.2	1.552
Germany	(DM)	20.59	3.849	3.397	1	0.411	1008	1.121	4.276	102.1	84.29	4.378	0.821	0.425	0.905	0.660	72.78	0.527
Ireland	(I£)	50.14	9.373	8.274	2.435	1	2454	2.729	10.41	248.7	205.3	10.66	2.000	1.034	2.204	1.608	177.2	1.284
Italy	(L)	2.043	0.382	0.337	0.099	0.041	100.	0.111	0.424	10.13	8.365	0.434	0.082	0.042	0.090	0.066	7.223	0.052
Netherlands	(Fl)	18.37	3.435	3.032	0.892	0.366	899.2	1	3.816	91.13	75.22	3.907	0.733	0.379	0.808	0.589	64.95	0.471
Norway	(NKr)	48.15	9.001	7.945	2.339	0.960	2357	2.621	10	238.8	197.1	10.24	1.921	0.993	2.116	1.544	170.2	1.233
Portugal	(Es)	20.16	3.769	3.327	0.979	0.402	986.7	1.097	4.187	100.	82.54	4.287	0.804	0.416	0.886	0.647	71.27	0.516
Spain	(Pta)	24.43	4.566	4.031	1.186	0.487	1195	1.329	5.073	121.2	100.	5.194	0.974	0.504	1.074	0.783	86.35	0.626
Sweden	(SKr)	47.03	8.791	7.760	2.284	0.938	2302	2.560	9.767	233.2	192.5	10	1.876	0.970	2.067	1.508	166.2	1.205
Switzerland	(SFr)	25.07	4.687	4.137	1.218	0.500	1227	1.365	5.207	124.4	102.6	5.331	1	0.517	1.102	0.804	88.62	0.642
UK	(£)	48.49	9.064	8.001	2.355	0.967	2373	2.639	10.07	240.5	198.5	10.31	1.934	1	2.131	1.555	171.4	1.242
Canada	(C$)	22.75	4.253	3.755	1.105	0.454	1114	1.238	4.725	112.9	93.15	4.838	0.908	0.469	1	0.730	80.43	0.583
US	($)	31.18	5.829	5.145	1.514	0.622	1526	1.697	6.476	154.6	127.7	6.630	1.244	0.643	1.370	1	110.2	0.799
Japan	(Y)	28.29	5.289	4.668	1.374	0.564	1384	1.540	5.876	140.3	115.8	6.016	1.128	0.583	1.243	0.907	100.	0.725
Ecu		39.04	7.298	6.442	1.896	0.779	1911	2.125	8.108	193.6	159.8	8.301	1.557	0.805	1.716	1.252	138.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	-	0.6618	-	-	-	2,417	25,668
Dec	0.6660	0.6652	-0.0005	0.6667	0.6650	13,651	58,686
Mar	0.6697	0.6683	-0.0009	0.6697	0.6693	10	1,183

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	-	0.9053	-	-	-	6,710	28,329
Dec	0.9194	0.9198	+0.0007	0.9215	0.9189	12,257	78,176
Mar	-	0.9316	+0.0008	-	0.9285	34	870

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	-	0.8055	+0.0015	-	-	4,679	13,469
Dec	0.8129	0.8122	-0.0008	0.8146	0.8122	10,245	34,286
Mar	-	0.8204	-0.0002	0.8207	0.8204	15	1,082

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	-	1.5540	-	-	-	10,847	23,645
Dec	1.5568	1.5534	-0.0036	1.5578	1.5524	11,134	40,280
Mar	-	1.5530	-0.0036	-	1.5530	36	73

UK INTEREST RATES

LONDON MONEY RATES

Sep 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5½ - 2	5½ - 5⅜	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾	6⅛ - 6
Sterling CDs	-	-	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾
Treasury Bills	-	-	5⅝ - 5½	5⅝ - 5½	-	-
Bank Bills	-	-	5⅝ - 5⅝	5⅝ - 5½	5⅝ - 5½	-
Local authority deps.	5⅝ - 5½	5⅝ - 5⅝	5⅝ - 5⅝	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾
Discount Market deps	5.5 - 5⅜	5¼ - 5⅛	5⅝ -	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	6	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Sep 13, 5.5142pc. ECGD fixed rate Stlg. Export Finance. Make up day Aug 30, 1996. Agreed rate for period Sep 25, 1996 to Oct 25, 1996, Schemes II & III 7.07pc. Reference rate for period Aug 1, 1996 to Aug 30, 1996, Scheme IV & V 5.825pc. Finance House Base Rate 6pc from Sep 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.18	94.15	-0.01	94.17	94.14	6267	54558
Dec	94.16	94.15	-0.03	94.19	94.14	12077	107926
Mar	94.05	94.01	-0.05	94.06	94.01	12300	81773
Jun	93.78	93.74	-0.04	93.80	93.74	9510	66774
Sep	93.42	93.41	-0.03	93.46	93.41	2023	39687

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9400	0.15	0.21	0.23	0	0.06	0.22
9425	0.01	0.07	0.12	0.11	0.17	0.36
9450	0	0.02	0.05	0.35	0.37	0.54

Est. vol. total, Calls 2789 Puts 4129. Previous day's open int., Calls 155185 Puts 155712

EMS EUROPEAN CURRENCY UNIT RATES

Sep 17	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.165	+0.117	-0.82	2.30	6
Ireland	0.792214	0.786465	-0.000334	-0.73	2.20	5
Netherlands	2.15214	2.14356	+0.00215	-0.40	1.87	3
Portugal	195.792	195.323	+0.122	-0.24	1.70	2
Belgium	39.3960	39.3661	+0.041	-0.07	1.53	1
Germany	1.91007	1.91278	+0.00194	0.14	1.32	-1
Austria	13.4383	13.4595	+0.0144	0.16	1.30	-1
Denmark	7.28580	7.36271	+0.00397	1.06	0.40	-7
France	6.40608	6.49959	-0.01133	1.46	0.00	-12
NON ERM MEMBERS						
Greece	292.867	304.474	+0.079	3.96	-2.41	-
Italy	2106.15	1927.44	-2.5	-8.49	10.87	-
UK	0.786652	0.813427	-0.000654	3.40	-1.88	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
1.540	1.98	2.25	2.53	0.12	0.54	0.88
1.550	1.11	1.60	-	0.37	0.90	-
1.560	0.56	1.08	1.46	0.82	1.87	1.75
1.570	0.22	0.68	0.72	1.46	1.97	2.93
1.580	0.04	0.40	0.29	2.30	-	-

Previous day's vol., Calls 3,196 Puts 3,387 . Prev. day's open int., Calls 125,757 Puts 97,885

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	-	94.44	-	-	-	22,546	281,307
Dec	94.15	94.13	-0.02	94.16	94.12	100,659	477,077
Mar	94.02	93.99	-0.02	94.02	93.98	69,991	340,231

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.72	94.72	-0.01	94.74	94.72	581	4,130
Mar	94.59	94.59	—	94.59	94.58	41	1,402
Jun	-	-	-	-	-	5	5

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	Nov	Dec	Mar	PUTS Oct	Nov	Dec	Mar
9675	0.08	0.11	0.13	0.16	0.02	0.05	0.07	0.20
9700	0.01	0.02	0.03	0.06	0.20	0.21	0.22	0.35
9725	0	0	0	0.02	0.44	0.44	0.44	0.56

Est. vol. total, Calls 37872 Puts 13985. Previous day's open int., Calls 300785 Puts 224514

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9800	0.11	0.17	0.15	0.20	0.39	0.57
9825	0.03	0.07	0.08	0.37	0.53	0.75

Est. vol. total, Calls 1500 Puts 0. Previous day's open int., Calls 2085 Puts 1040

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9200	0.25	0.55	0.73	0.22	0.20	0.24
9225	0.14	0.39	0.56	0.36	0.29	0.32
9250	0.07	0.27	0.41	0.54	0.42	0.42

Est. vol. total, Calls 1543 Puts 385. Previous day's open int., Calls 58953 Puts 25912

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Trust Bank	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
AIB Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75		
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

● Members of London Investment Banking Association
* In administration

PERSONAL

COMMODITIES AND AGRICULTURE

Scandinavians blame N Americans for newsprint price slide

By Bernard Simon in Toronto

Canadian and US newsprint mills have incurred the wrath of their Scandinavian rivals by sharply stepping up shipments to Europe and offering cut-throat prices.

The North Americans are trying to offload surplus output at a time of bulging stocks and tumbling domestic prices. "They're trashing every market around the world," one North American consultant said.

Standard newsprint prices on the east coast of North America dropped by US$50 to about $550 a tonne at the beginning of September, and there are rumours of deals for October at $500 a tonne. Prices peaked at $750 late last year.

By contrast, Swedish and Finnish mills have tried to counter weak demand by shutting down machines, rather than cutting prices. Their discipline has been rewarded by higher prices in Europe that North America.

However, Canadian newsprint exports to Europe have soared to 440,700 tonnes in the first seven months of 1996 from 357,900 tonnes a year earlier. Shipments to the UK in July totalled 40,100 tonnes, up from 29,900 tonnes in June.

According to one UK newsprint buyer, North American suppliers are currently quoting prices of £420 a tonne, compared to the prevailing Scandinavian price of £470. He said the most active exporters included Canada's Donohue and Abitibi-Price, and Champion International of the US.

North American mills stepped up capacity during the surge in pulp and paper prices in 1994 and 1995.

Although many have subsequently announced production cuts, some mills appear not to have matched words with deeds. According to the Canadian Pulp and Paper Association, stocks at US and Canadian mills have more than doubled in the past year to 696,000 tonnes at the end of July.

Over-supply has also been exacerbated by new Asian producers, especially in South Korea and Taiwan. According to one industry consultant, "the same ships bringing Korean newsprint to the west coast of the US are taking North American newsprint back again".

Some rays of sunshine are breaking through the gloom. Publishers' stocks have fallen slightly in recent months, and mills will be under more pressure to cut output as prices approach cash production costs.

An executive at one large US paper broker predicted that "you're going to see a much firmer scenario by the middle of next year". One concern however, is that producers will again fall into the pulp and paper industry's traditional pattern of seeking to recoup a slide in prices with hefty increases.

Bre-X bullish on Indonesian gold find

Canada's Bre-X Minerals might become one of the world's largest gold companies after the discovery of the Busang gold deposit in Indonesia, the firm's exploration manager Mr Michael T. Guzman said yesterday, reports Reuters from Hongkong.

Mr Guzman, speaking at an Asian Gold Congress here, said the find in East Kalimautan on Borneo island could also push Indonesia into the ranks of the world's top five gold producers.

As of July this year, data gathered by the company showed Busang contained total gold resources of 46.92m troy ounces, or 29.4 per cent of Indonesia's total resources, making it the second largest gold deposit in the country, Mr Guzman said, adding that the company's evaluations were still not completed.

Bre-X Minerals aimed to start open pit mining at Busang in the fourth quarter of the 2000, with an annual gold production capacity of 2m ounces, Mr Guzman said. Preliminary data indicated up to US$1bn of capitalisation was needed to get the mine into production.

The company owned majority stakes in three contiguous Contract of Work (government allocated mining right) areas in East Kalimantan, with minority stakes held by Indonesian joint venture partners, Mr Guzman said.

The Busang mine is located in rugged mountainous terrain, 160km north-west of Samarinda, the capital of East Kalimantan.

"Regular access to the area is by boat through the Mahakam River to Long Tesak village and onward along a gravel surfaced road 33km to the site base camp," Mr Guzman said.

MARKET REPORT

LME copper tone uncertain

COPPER prices endad an uncertain session at tha Londoo Metal Exchange yesterday, ending with modest gains.

The casb/three months delivery spread momentarily traded at a $2-a-tonne discount – the first since January 1995. At its peak in December 1995 there was a cash premium, or "backwardatioo" of about $330.

Premiums have heen under pressure for some time, bowever, and this was exacerbated after Monday's "third Wednesday" September pricing, when previously tight delivery dates fell out of the market's price structure.

The market is long of the nearby dates through to October, with a $5 cash discount, or "contango", prevailing.

Last business for three months copper was at $1,870 a tonne, up $5.

Three months ALUMINIUM registered another two-year low, of $1,411 a tonne before some light trade buying and short-covering halted the decline.

Compiled from Reuters

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	+7,400	to 955,100
Aluminium alloy	-240	to 85,720
Copper	-1,475	to 288,350
Lead	+550	to 114,450
Nickel	+510	to 38,718
Zinc	+575	to 550,250
Tin	+85	to 10,125

Greenlanders search for mineral wealth

Ordinary citizens are joining in the hunt for oil and metals, writes Hugh Carnegy

So anxious is Greenland to discover workable mineral deposits to boost its fragile, frozen economy that it has urged the public to join in the quest. "Go and look for rocks!" exhort posters with a drawing of a man eagerly panning for gold. A parallel campaign has the slogan: "Go and look for oil!"

The bid to involve ordinary citizens in the hunt for recoverable mineral resources is much more than a gimmick in a land so far flung geographically, so thinly populated – and with such a hostile climate and topography.

Only 57,000 people live in Greenland, dotted around the jagged coastline of the world's biggest island. Most of the 2m sq km of the country is covered by a thick ice cap and the remainder is snow- and ice-bound for much of the year. No roads link the few small towns, which are separated from each other by vertiginous mountains and deep fjords.

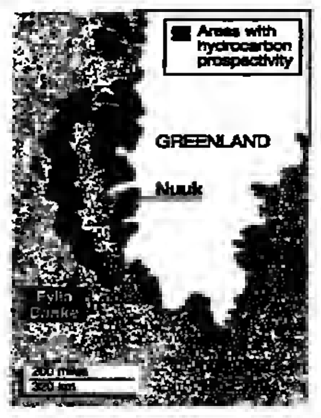
In these daunting circumstances, using the intimate knowledge and access of the local people to the rock formations that they inhabit has proved a useful way of helping to build up a picture of the geology of the land. Oil and gas, zinc and lead, copper, cobalt, gold and diamonds are among the many prospects that have been identified.

But helpful though rock samples from ordinary Greenlanders may be, it is foreign mineral and oil companies that the local government really needs to attract to test whether the island may be sitting on exploitable quantities of natural resources that would give a huge boost to the hard-pressed economy.

A steady rise in the number of exploration licences granted in recent years – and especially some promising discoveries – have raised hopes in Nuuk, Greenland's tiny capital, that a breakthrough may be in prospect. There has been mining in Greenland before – notably of cryolite (a mineral used in the manufacture of soda and aluminium) up until 1987 and most recently at the Black Angel lead and zinc mine in Maarmorilik in western Greenland. But it closed in 1990.

"We believe the levels of foreign investment will increase. We think [minerals] are going to be a great income source for Greenland. It is hard for the pessimists to remain pessimistic," is the upbeat message from Mr Lars Emil Johansen, premier of Greenland's Home Rule Authority.

Geologists and engineers involved in the search are a good deal more cautious. One described the search for oil off Greenland's west coast as "the wild cat of all wild cat" prospects.



Whether the premier's optimism is justified or not is likely to be decided within two to three years as several projects that have emerged from the recent build-up of exploration activity reach critical points.

Since 1992, the number of exploration licences issued by the Greenland Mineral Resources Administration has jumped from 20 a year to an expected 65 this year. Some 20 companies are now involved in ventures in Greenland, including several of the world's big names, such as Canada's Falconbridge, RTZ of the UK and the Texas Energy Corp.

An important element in the rise in interest was a reorganisation of the legal background to prospecting in Greenland. Mineral resources ultimately remain within the authority of the Danish government in Copenhagen, but responsibility for their administration is shared with the Greenland Home Rule Authority.

The MRA is a "one stop shop" for prospecting, exploration and production licences. For those that reach production, there are no royalties for minerals – although this does not apply to oil and gas. Corporation tax is 35 per cent. The currency in Greenland is the Danish krone, one of the strongest European currencies.

Geologically, Greenland has long been recognised to hold lots of interesting prospects. An important advantage for prospectors is the extensive data base of the Denmark and Greenland geological survey, which is available in English.

But a big boost has come from the occurrence of structures similar to those in neighbouring north-eastern Canada. There are hopes of finds in Greenland similar to the 1994 discovery by Diamond Fields Resources of nickel, copper and cobalt deposits in Labrador's Voisey's Bay. Diamond-bearing kimberlites in the Northwest Territories in Canada have also intensified the search for similar structures in Greenland.

One of the projects Greenland holds out most hope for is a zinc and lead discovery made in 1994 by Platinova, a junior mineral development company quoted on the Toronto bourse and part-owned by the Greenland government. The find is at Citronen Fjord in the farthest north-east corner of Greenland, an Arctic desert where the coast is ice-bound year round. Supplies for the drilling operations have to be flown in – with a Boeing 272 once landing on a 2km runway cleared on the 2m thick ice during the winter.

Platinova has spent C$5m (US$3.65m) to date drilling 111 holes in a 10km by 2.3km area. Mr Erik Andersen, the managing director, is cautious about the likelihood of eventually moving to production. "We are not at the point of making a decision yet," he says. "But we've had some very good results from our work up there this year".

The biggest bonanza for Greenland would be a significant oil find. Platinova is involved in one on-shore exploration project in the Disko Bay area in western Greenland where oil prospects have been identified.

But the main hopes are focussed on the Fylla Banke area in the deep and frigid – but ice-free – waters off south western Greenland where seismic work has identified hydrocarbon prospects. "We've got big expectations for this," says Mr Kim Zinck Jorgensen, petroleum geologist at the MRA. "There is a very good chance of gas. The question is whether there is oil under it."

Two international consortia are at present negotiating with the MRA over a licence to explore the prospect. One includes Dong, the Danish group, Norway's Statoil and Phillips of the US, the other Elf Aquitaine and Total of France. An award is set to be made by the end of the year, with drilling likely to take place in 1998.

With some 40 per cent of Greenland's economy accounted for by direct subsidies from Denmark, a breakthrough in mineral exploration would be a vital breakthrough for the whole, huge island. Not only would it offer the prospect of a long-term production operation – it would draw more precious exploration resources to the country.

"We need a few successes here. Nothing brings in more interest in this business than a success," says Erik Andersen.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1382.5-3.5	1418-8
Previous	1389-90	1424-25
High/low		1425/1411
AM Official	1375-6	1410.5-11.0
Kerb close		1416.5-7.0
Open int.	211,029	
Total daily turnover	76,830	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1195-205	1230-5
Previous	1203-05	1235-40
High/low	1196/1194	1240/1230
AM Official	1194-6	1227-30
Kerb close		1230-40
Open int.	5,018	1,675
Total daily turnover		

■ LEAD ($ per tonne)

	Cash	3 mths
Close	777-8	780-1
Previous	790.5-81.5	795.5-96.5
High/low	771/770	785/770
AM Official	770.5-1.5	776-6
Kerb close		772-3
Open int.	70,769	
Total daily turnover	29,683	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7310-20	7425-35
Previous	7290-300	7400-405
High/low	7265/7260	7440/7360
AM Official	7265-70	7370-80
Kerb close		7430-40
Open int.	40,370	
Total daily turnover	14,086	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6040-50	6105-10
Previous	6095-100	6155-58
High/low		6115/6070
AM Official	6045-50	6105-10
Kerb close	[illegible]	[illegible]
Open int.	18,111	
Total daily turnover	7,369	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
[illegible]	[illegible]	[illegible]

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
[illegible]	[illegible]	[illegible]

■ LME AM Official £/$ rate: 1.5548

LME Closing £/$ rate: 1.5548

■ HIGH GRADE COPPER (COMEX)

[illegible]						

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

[illegible]			

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]						

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]						

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]						

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]						

■ CRUDE OIL IPE ($/barrel)

[illegible]						

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]						

■ GAS OIL IPE ($/tonne)

[illegible]						

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]						

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]						

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

[illegible]						

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]						

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]						

■ BARLEY LIFFE (£ per tonne)

[illegible]						

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]						

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]						

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]						

■ POTATOES LIFFE (£/tonne)

[illegible]						

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]						

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (£/tonne)

[illegible]						

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]						

■ COCOA (ICCO) (SDR's/tonne)

[illegible]			

■ COFFEE LIFFE ($/tonne)

[illegible]						

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]						

■ COFFEE (ICO) (US cents/pound)

[illegible]			

■ WHITE SUGAR LIFFE ($/tonne)

[illegible]						

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]						

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]						

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]						

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

Minor Metals
[illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)

[illegible]				

■ CRB Futures (Base: 1967=100)

[illegible]				

■ GSCI Spot (Base: 1970=100)

[illegible]				

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]						

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

[illegible]				

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]		

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]		

■ NATURAL GAS (Pence/therm)

[illegible]		

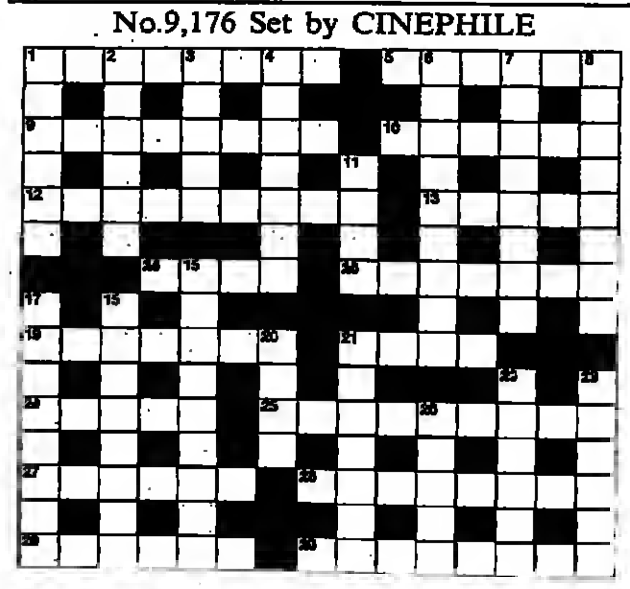
■ OTHER

[illegible]		

JOTTER PAD

CROSSWORD

No.9,176 Set by CINEPHILE

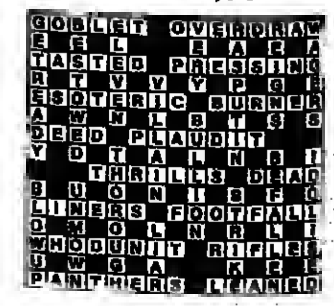


CIs and SIs are similar

ACROSS
1 A version of dates: it's aversion (8)
5 SI sounds rosy (6)
9 Nasty sneer in fellow from CI (8)
10 A cross with a cross: it's charming (6)
12 Sixth year of our era: black recommended (9)
13 Extremist last month with the big guns (5)
14 Saint of SI puts master on line (4)
18 Smallest number at home with mail being sorted (7)
19 Put sugar in – little – in a gun (7)
21 See 20
24 Religious work: after writing, singular charity (5)
25 A breather, perhaps, for one in karata (3,6)
27 Rough sea hides expression of disapproval, which is clever (6)
28 I trusted remover of debris (8)
29 Very French company for SI (6)
30 Tree with returning desire for CI (8)

DOWN
1 Tonic for the great – silver identity disc (3,3)
2 Piece of clothing for record holder (6)
3 Saint of SI featured by champagne socialist (5)
4 Shaky start of movement, three times as much outside (7)
6 Liqnor smuggler showing peculiar form? (3,6)
7 TI or ME? (4-4)
8 It takes a turn in a gathering, going by the book (8)
11 CI in another mode (4)
15 Fall over garret, wa hear, from force of habit (9)
17 Stick with remains of cigarette factory (8)
18 Sally goes quietly in the back with Peg (8)
20, 21 across Craft for couples giving no sound of satisfaction to CI (5,3)
21 County cut off with a pound – it's fantastic (7)
22 Bird, saint of SI, could be drunk if I follow (6)
23 Garment for CI (6)
26 Bottle never broken (5)

Solution 9,175



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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

مكتبة من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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Old Mutual International - Contd.

Alpha Fund Management Ltd

Coast Asset Management Corporation

GT Chile Growth Fund Ltd - Contd.

India Investment AB

Lloyd George Management

ORIENT Growth Fd

Smith Barney Funds

Sun Alliance International Life
PO Box 77, Les Echelons Ct, St Peter Port, Gsy 01481 714108

	Selling Price	Buying Price	+ or -	Yield Gross
US Dollar Global Managed	$1.98	2.12	—	-
Stg Global Managed	£2.02	2.19	—	-

Sun Life International (IOM) Ltd
Bridge House, Castletown, Isle of Man
Tel: 44 (0) 1624 825000 Fax: 44 (0) 1624 825010
Prices Line: 44 (0) 1624 824740

	Selling Price	Buying Price	+ or -	Yield Gross
Aggressive Managed	£1.342		—	-
Balanced Managed	£1.317		—	-
Defensive Managed	£1.304		—	-
Sterling Income	£1.343		—	-
Sterling Guaranteed Money	£1.229		—	-
Offshore Deferred Distribution	£1.342		—	-

OTHER OFFSHORE FUNDS

ATSP Management Ltd
Philippines Long Term Equity

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Aug 31	$40.80		—	-

AXA Asset Management

	Selling Price	Buying Price	+ or -	Yield Gross
AXA Valeurs	FFr181.11		—	-
AXA Second Marche Croissance	FFr123.02		—	-
AXA Europe Actions	FFr260.27		—	-
AXA MPI	FFr121.72		—	-

Acciones y Valores de Mexico SA de CV

	Selling Price	Buying Price	+ or -	Yield Gross
Accival Aug 3	Pesos61.15		—	-

Africa Emerging Markets Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Sep 6	$11.02		—	-

Alliance Capital

Allied Dunbar International Fund Mngrs (1995)F

	Selling Price	Buying Price	+ or -	Yield Gross
ADI Emerging Asia	$0.8079	0.7400	-0.0020	0

Aleksis Capital Management Ltd

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● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

مكبرة من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PAPER, PACKAGING & PRINTING - Cont.

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TELECOMMUNICATIONS - Cont.

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£22½xd	—	£34½	£22½	1,508	3.1	Φ
Barlowt	††	953	—	£10⅞	£5⅝	1,155	2.3	-
Gold Flds Prop R		137xd	—	179	120	14.0	6.3	10.6
JIK Props.		58	—	86	75	3.22	11.4	-
SASOL	♥	645	—	710	475	3,777	1.7	-
SA Brews		£18½	—	£26⅞	£16¼	4,059	2.2	Φ
Standard Bank		£28¾	+¼	£32⅞	£21¼	3,170	1.4	22.6
Tiger Oats	†	780	—	1270	770	1,188	2.1	16.7
Tongaat-Hulett		780xd	—	1247	738	747.9	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✲ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on assumed dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
r Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
s Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1996.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part on a
FD (Foreign Income Dividend)
S Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1560 a year for each security shown, subject to the Editor's discretion.

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For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

MARKET REPORT

UK stocks hit by revived US rate fears

By Steve Thompson, UK Stock Market Editor

A revival of fears that an increase in US interest rates may yet be on the cards after next week's open market committee meeting in Washington, put paid to any lingering hopes of UK equities ending the trading session in higher ground yesterday.

But even before the US market started to fall, London was making very heavy weather of establishing itself in record territory, with some institutions said to have been concerned with the August public sector borrowing requirement number. At £4.5bn, this was viewed as disappointing, following July's £1.7bn repayment.

Interest rate fears in the US hit Treasury bonds, which fell by around three-quarters of a point in early trading and also hit US shares, with the Dow Jones Industrial Average dropping over 40 points at one time. Both markets subsequently rallied, with the long bond a shade off its lows and the Dow down 25 points an hour after London finished trading.

The FT-SE 100 index, which began the day in such good heart and with many market observers hopeful of a dash for the 4,000 level, eventually settled a disappointing 4.9 lower at 3,972.3.

The gloom affecting the FT-SE 100 encompassed the whole of the market, with the FT-SE Mid 250 retreating 12.0 to 4,450.0. The FT-SE Small Cap, on the other hand, managed a minor gain, closing 0.5 ahead at 2,188.1.

Dealers insisted, however, that the setback was only temporary. "There really has been no sizeable selling into the market; on the contrary there has been more informed buying, but the market has run out of steam for the time being," was the view of one trader.

He said the big institutions had held off from the market during the early part of the day, preferring to wait for the US industrial output details before deciding which way to go. He also noted that the institutions had become increasingly wary of the market ahead of Friday's series of futures and options expiries.

Earlier, there was a widespread expectation that the recent good economic news on both sides of the Atlantic, pointing to only limited inflationary pressures, plus the general euphoria in global stock markets would see the FT-SE 100 push hard against 4,000.

Footsie kicked off on the uptick and quickly established a new intra-day record of 3,986.7, before running into flurries of small profit-taking and general selling pressure which drove the index into negative ground.

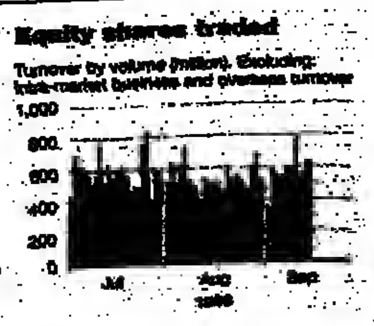
Thereafter the index made numerous attempts to rally, getting back into the black on a couple of occasions but eventually succumbing to the downside pressure brought about by Wall Street's poor opening.

Turnover increased yesterday, picking up substantially between 5pm and 6pm and totalling 768.5m at the 6pm reading. Customer value on Monday was valued at £1.51bn.

FT-SE-A All-Share Index

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3972.3	-4.9
FT-SE Mid 250	4450.0	-12.0
FT-SE-A 350	1982.7	-3.1
FT-SE-A All-Share	1958.22	-2.79
FT-SE-A All-Share yield	3.75	3.75
FT Ordinary Index	2852.7	-7.2
FT-SE-A Non Fins p/e	18.21	18.26
FT-SE 100 Fut Sep	3985.0	-3.0
10 yr Gilt yield	7.81	7.80
Long gilt/equity yld ratio	2.16	2.15

Best performing sectors

1 Tobacco .... +5.4
2 Chemicals .... +0.6
3 Gas Distribution .... +0.5
4 Alcoholic Beverages .... +0.4
5 Building & Const .... +0.3

Worst performing sectors

1 Retailers: Food .... -2.3
2 Building Matls .... -1.5
3 Textiles & Apparel .... -1.1
4 Paper: Pckg & Print .... -0.9
5 Food Producers .... -0.9

US court ruling lifts BAT

By Joel Kibazo and Lisa Wood

Tobacco and financial services giant BAT Industries cruised into pole position in the Footsie as the market celebrated news of a favourable US court ruling.

Shares in the group jumped 23½ to 462½p as the market reacted to a ruling in Florida. The judge in the case dismissed all pre-1994 claims in the Medicaid suit filed by the state of Florida against the tobacco industry. BAT was the most actively traded stock in the premier index.

The news also prompted the return of talk that the group may consider a demerger of the financial services business from the group's overall activities.

BAT shares fell heavily in August after a court ruling went against its Brown & Williamson Tobacco subsidiary, prompting several brokers to turn cautious on the stock.

It was a different story yesterday as sentiment changed following the ruling. One dealer said: "We just could not get enough of the stock today" while an analyst said: "BAT is now less threatened by the big tobacco cases. The Florida ruling is significant as it was likely to be the toughest."

Brisk trading in Shell Transport brought turnover of 8.4m as the shares rose to new all-time intraday and closing highs. They closed 4½ ahead at 987p, having touched 993p at one point.

The stock has brushed aside worries about the recent decline in the international oil price and dealers are now concentrating on the potential for more cost-cutting in the group's European operations.

NatWest Securities is a fan of the stock and has been urging investors to "add" to holdings. In a note to clients, the broker said: "The trend towards accelerated dividend growth continues, backed by the strength of cashflows, balance sheet and the drive towards improving returns on capital."

In the rest of the sector, Enterprise Oil continued to languish and gave up another 2½ to 516½p, while the sellers also had the upper hand in BP, which left the shares trailing 5½ to 647¼p after trade of 6.1m.

Food stocks were among the big fallers in the FT-SE 100, including Tesco, despite its sparkling interim results.

Tesco, which has taken market share from its competitors as well as discounters in the sector, said that like-for-like sales in the current trading period were up 7.5 per cent.

But Tesco fell 5½ to 297p, a response, said some analysts, to fears over a price war in the sector, following Tesco's new price initiative. One analyst said he believed Tesco had been "a bit hard done by" with the market over-reacting to the extent of price competition.

J Sainsbury, which is seen as one of Tesco's main victims, fell 9 to 369½p, while Asda fell 5¾ to 103p and Safeway 5½ to 326½p.

Taylor Woodrow softened 3 to 173p despite interim results at the top end of expectations. Analysts, some of whom upgraded their forecasts, said there were concerns about margins on international contracts. SGST reiterated its "hold" stance and said the rating was now at a level which fully discounted the growth prospects and, "given the management's unnerving record of finding corporate banana skins, particularly in contracting, the recent rally should be seen as an opportunity to take profits." There was profit-taking in a number of building materials stocks which are heavily exposed to Germany and which have risen recently on sentiment that the German economy is improving. RMC Group fell 28 to 1,167½p while Redland softened 11 to 461½p, with Merrill Lynch advocating profit-taking in both stocks.

Caradon fell 8 to 248½p after its announcement that it had increased its exposure to the German window and doors maker, to 64.8 per cent from the initial 50.1 per cent it gained in 1995.

Among transport issues, there was a two-way pull in property and shipping group P&O as it reported interim figures. The shares eased a penny to 593½p after trade of 3.9m.

The group confirmed it is in talks with competitors about cross-channel ferry operations.

Bass softened 9 to 793½p on fears that its trading statement this week could contain bad news. Analysts said this was highly unlikely. Whitbread fell 6 to 695½p and Scottish & Newcastle 5½ to 676p on the fears.

H P Bulmer, which was shaken but recovered after Matthew Clark's revelations last week about alcoholic lemonades biting into cider sales, fell 16 to 548p. One analyst said the market may be hearing that those Bulmer's brands, which are equivalent to Matthew Clark's, were also suffering a fall in sales. But the analyst said these premium white cider brands are not as important to Bulmer's profits as they are to Matthew Clark's.

Savoy Hotels climbed 30 to 1362½p after better-than-expected interim results.

Interim results described by one analyst as "appalling" were responsible for Vardon falling 19½ to 88½p.

Dmatek hardened 15 to 87½p after specialist technology fund Star Venture Fund of Munich bought a 15.5 per cent stake in the company's AVT subsidiary.

Internet access provider Easynet Group was by far the best performer in the market after the shares rose by nearly 40 per cent. They jumped 23 to 81½p.

The group said it had signed an agreement with Microsoft Corp of the US, whereby access to the Internet through Easynet is to be included in Windows 95.

Shares in specialist components group Roxboro Group tumbled 80½ to 232½p following a profits warning from the company. Analysts moved to downgrade full year profit expectations which saw the market consensus shift from £18m to £15m for the full year.

However, analysts at Credit Lyonnais Laing said they remain "cautiously optimistic on the basis of the new product lines", and suggested investors should "buy on weakness."

Treats Group tumbled 34 to 100½p, a fall of 25 per cent, after the ice-cream maker said it was unlikely to make a second half profit after a cooler summer season. Treats' troubles prompted Kleinwort Benson to reiterate its "sell" stance on Unilever, which is heavily exposed to ice cream.

Unilever, which has risen substantially over the past few weeks on the back of reorganisation hopes, fell 24¼ to 1382p.

FINANCIAL TIMES EQUITY INDICES

	Sep 17	Sep 16	Sep 13	Sep 12	Sep 11	Yr ago	*High	*Low
Ordinary Share	2852.7	2859.9	2868.6	2833.8	2816	2530.1	2895.2	2669.8
Ord. div. yield	3.88	3.86	3.89	4.03	4.04	4.26	4.23	3.76
P/E ratio net	17.29	17.29	17.27	17.11	17.07	15.79	17.29	15.80
P/E ratio nil	17.12	17.13	17.11	16.95	16.91	15.75	17.13	15.71

Ordinary Share Index since compilation: high 2895.2 ... low 49.4 26/06/40. Base Date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2863.5	2858.8	2851.9	2852.5	2850.0	2849.8	2853.6	2852.4	2849.4	2863.8	2848.5

	Sep 17	Sep 16	Sep 13	Sep 12	Sep 11	Yr ago
SEAQ bargains	41,734	42,182	39,132	35,946	35,030	29,895
Equity turnover (£m)†	-	1511.3	1670.3	1802.0	1571.0	2098.9
Equity bargains†	-	43,337	40,940	38,541	38,258	36,880
Shares traded (m)†	-	536.8	610	608.4	551.2	623.4

†Excluding intra-market business and overseas turnover.

	Sep 17	Sep 16	Sep 13	Sep 12	Sep 11	Yr ago	*High	*Low
FT-SE AIM	1043.10	1044.70	1042.60	1040.30	1040.10	-	1146.46	965.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	709	Total Highs	129	Total contracts	44,786
Total Falls	403	Total Lows	33	Calls	25,192
Same	1,481			Puts	19,594

Sep 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3991.0	3979.6	-6.0	3995.0	3965.6	17638	30760
Dec	4020.0	4005.5	-8.0	4021.0	3991.5	7974	34620
Mar		4014.5	-5.5			6	360

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4445.0	4449.0	-1.0	4445.6	4445.6	15	1335
Dec	-	4478.5	-1.0			0	2535

■ FT-SE 100 INDEX OPTION (LIFFE) (*3990) £10 per full index point

	3800	3850	3900	3950	4000	4050	4100	4150
	C P	C P	C P	C P	C P	C P	C P	C P
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 11,744 Puts 8,314

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3825	3875	3925	3975	4025	4075	4125	4175
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 4,629 Puts 7,544 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					
§	F.P.	2.39	53	41	†Feynwood	45½xd		20.4	-	1.1	-
*	F.P.	218.6	242½	227¼	GT Chile Growth	227¾		-	-	-	-
§100	F.P.	99.8	109½	101½	†Gartland Whalley	104½	-4	-	-	-	-
§12.5	F.P.	1.66	14¼	13¼	†Grosvenor Land	14¼		-	-	-	-
§65	F.P.	16.3	66½	64½	Hambros Sm Asn C	65½		-	-	-	-
§100	F.P.	24.4	98	94	Home Gvt 1000 C	97½		-	-	-	-
§12	F.P.	0.60	15	12	†Life Numbers	12		-	-	-	-
§	F.P.	0.18	6	2	†Life Numbers Wts	5		-	-	-	-
-	F.P.	0.38	8	3	Pembertone Wts	6		-	-	-	-
§65	F.P.	12.1	70½	69½	†Polydoc	70½		-	-	-	-
*	F.P.	221.2	244	£27¾	Regent Kingpin	£27¾		-	-	-	-
*	F.P.	2.16	25½	£3¾	Regent K'pin Wts	£3¾		-	-	-	-
§100	F.P.	62.4	98	90¼	Schroder Em Cos	94½	+½	-	-	-	-
§	F.P.	8.80	39	31	Schroder Em Wts	39	+½	-	-	-	-
§68	F.P.	13.3	70	68	†Selector	68		-	-	-	-
-	F.P.	-	89½	85	St James Place	89	+½	-	-	-	-
-	F.P.	-	73	69	Value Rlstn Tst	70¼	-½	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Sep 16	% chg on day	Sep 13	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (30)	1985.81	-0.4	1991.33	2025.72	1.56	-	2528.73	1722.98
■ Regional Indices								
Africa (13)	2811.74	-0.8	2831.80	2783.44	3.08	36.82	3553.86	2272.74
Australasia (8)	2146.38	-0.4	2154.36	2454.05	2.58	21.05	2827.34	2123.80
North America (11)	1785.72	-0.3	1790.65	1748.14	0.74	65.88	2186.38	1488.94

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FT - SE Actuaries Share Indices — The UK Series

	Sep 17	Day's chge%	Sep 16	Sep 13	Sep 12	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3972.3	-0.1	3977.2	3987.9	3932.6	3541.4	3.92	2.05	15.54	137.16	1846.83
FT-SE Mid 250	4450.0	-0.3	4462.0	4453.3	4432.3	3939.9	3.42	1.51	24.29	138.97	1806.32
FT-SE Mid 250 ex Inv Trusts	4484.1	-0.3	4496.7	4490.4	4470.9	3954.7	3.51	1.53	23.24	145.84	1823.78
FT-SE-A 350	1982.7	-0.2	1985.8	1981.3	1965.4	1765.2	3.81	1.95	16.84	67.07	1678.96
FT-SE-A 350 Higher Yield	1893.5	—	1893.5	1888.1	1869.6	1745.9	5.06	1.84	13.42	85.92	1349.23
FT-SE-A 350 Lower Yield	2079.1	-0.3	2085.2	2081.6	2068.4	1789.8	2.67	2.14	21.89	48.72	1460.58
FT-SE SmallCap	2188.08	—	2187.59	2185.16	2179.35	1984.47	3.04	1.62	25.46	51.05	1811.54
FT-SE SmallCap ex Inv Trusts	2183.69	—	2184.76	2183.55	2178.75	1984.21	3.24	1.69	22.81	53.82	1820.13
FT-SE-A ALL-SHARE	1958.22	-0.1	1961.01	1956.76	1941.90	1745.57	3.75	1.93	17.26	64.66	1683.43

■ FT-SE Actuaries All-Share

	Sep 17	Day's chge%	Sep 16	Sep 13	Sep 12	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3768.65	-0.3	3780.08	3781.89	3752.61	3028.97	3.68	1.63	20.84	93.97	1630.48
12 Extractive Industries(6)	4159.17	-0.9	4196.26	4176.85	4216.36	4127.15	3.91	2.86	12.02	109.19	1223.91
15 Oil, Integrated(3)	3892.72	-0.2	3900.93	3900.37	3858.36	3029.61	3.84	1.45	22.48	100.98	1729.19
16 Oil Exploration & Prod(15)	2738.98	-0.2	2745.11	2782.81	2765.54	2047.44	1.92	1.66	38.81	36.33	1650.10
20 GEN INDUSTRIALS(274)	2110.37	-0.3	2115.71	2110.01	2086.34	2004.93	3.97	1.78	17.88	64.12	1168.75
21 Building & Construction(34)	1197.10	+0.3	1193.68	1187.97	1184.90	919.54	3.47	1.60	22.52	26.35	1008.90
22 Building Matls & Merchs(29)	1993.25	-1.6	2024.05	2008.89	1982.55	1746.93	3.85	1.68	19.33	52.76	1016.89
23 Chemicals(25)	2510.58	+0.6	2495.51	2491.51	2482.39	2506.08	4.03	1.45	21.38	79.87	1207.17
24 Diversified Industrials(18)	1607.43	+0.2	1603.77	1607.77	1586.68	1811.74	5.72	1.62	13.46	74.90	918.31
25 Electronic & Elect Equip(36)	2443.85	-0.1	2446.09	2422.93	2403.00	2174.82	3.24	1.47	26.29	58.79	1285.92
26 Engineering(71)	2604.35	-0.2	2609.04	2601.63	2567.21	2200.57	3.12	2.48	13.17	59.70	1597.80
27 Engineering, Vehicles(14)	3164.02	-0.5	3180.15	3178.91	3130.77	2584.53	3.41	1.71	21.46	96.19	1666.50
28 Paper, Pckg & Printing(29) … 68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(663)	2080.90	-0.2	2084.76	2082.84	2047.73	1867.30	3.74	1.84	16.21	66.44	1590.08
70 FINANCIALS(104)	3202.98	—	3203.70	3179.97	3151.57	2524.33	4.13	2.38	12.72	112.87	1405.60
71 Banks, Retail(8)	4618.03	+0.1	4614.84	4568.88	4507.95	3808.84	3.98	2.71	11.76	174.00	1543.18
72 Banks, Merchant(6)	3750.43	—	3750.44	3751.46	3743.80	3861.69	2.74	2.80	16.25	77.11	1201.30
73 Insurance(22)	1481.19	-0.2	1484.69	1474.13	1486.56	1362.04	5.66	2.30	9.60	60.17	1132.26
74 Life Assurance(7)	3561.47	-0.3	3572.16	3570.48	3567.45	2874.97	4.30	1.93	15.06	103.40	1494.16
77 Other Financial(20)	2651.86	-0.4	2662.85	2657.59	2641.78	2274.15	4.02	1.78	17.62	84.68	1535.82
79 Property(41)	1665.80	+0.1	1664.26	1659.03	1661.80	1442.20	3.84	1.26	25.81	44.81	1040.83
80 INVESTMENT TRUSTS(127)	3213.24	+0.3	3204.79	3193.82	3171.33	2960.63	2.22	1.11	50.87	55.17	1131.68
89 FT-SE-A ALL-SHARE(894)	1958.22	-0.1	1961.01	1956.78	1941.90	1745.57	3.75	1.93	17.26	64.66	1683.43
FT-SE-A Fledgling	1251.06	+0.1	1249.23	1247.09	1244.93	1079.40	2.77	2.35	19.19	25.41	1319.94
FT-SE-A Fledgling ex Inv Trusts	1265.57	+0.1	1264.20	1262.28	1260.49	1074.35	2.96	2.52	16.70	27.72	1336.56

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3985.6	3980.9	3971.9	3974.1	3970.9	3970.8	3978.0	3977.3	3969.3	3986.7	3965.5
FT-SE Mid 250	4465.6	4467.1	4463.7	4463.2	4459.5	4457.4	4458.7	4456.8	4449.3	4469.1	4448.0
FT-SE-A 350	1989.7	1987.7	1983.5	1984.7	1983.0	1982.8	1985.6	1985.3	1981.4	1990.1	1979.9

Time of FT-SE 100 Day's high: 8:38 AM Day's low: 3:20 PM. FT-SE 100 1996 High: 3977.2 (16/09/96) Low: 3632.3 (16/07/96).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1180.1	1182.3	1181.6	1180.2	1177.2	1176.8	1176.3	1176.4	1173.0	1174.1	1173.4	+0.7
Pharmaceuticls	5598.9	5590.7	5576.7	5576.7	5577.8	5580.1	5564.7	5565.5	5558.6	5561.8	5582.2	-20.3
Water	2200.9	2200.3	2200.0	2198.2	2197.6	2199.3	2196.4	2197.7	2193.3	2195.4	2197.4	-2.0
Banks, Retail	4681.3	4676.5	4671.3	4672.1	4672.6	4674.5	4695.6	4687.5	4673.0	4677.6	4673.7	+3.3

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
"The FT-SE Actuaries Share Indices are calculated by FTSE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trademarks of the London Stock Exchange and the Financial Times Limited and are used by FTSE International Limited under licence. Auditor: The WM Company." † Sector P/E ratios greater than 80 and net covers greater than 90 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volumes for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded. † Indicates an FT-SE 100 Index constituent.

Prices for electricity generated for the purposes of the electricity pooling and settlement arrangements in England and Wales.

UK time	Pool purchase price £/MWh	Pool selling price £/MWh	Pool selling price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]

Energy Settlements and Information Services Limited

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 17 / Sch)

BELGIUM/LUXEMBOURG (Sep 17 / Frs.)

CZECH REP (Sep 17 / Koruna)

DENMARK (Sep 17 / Kr)

FINLAND (Sep 17 / Mks)

FRANCE (Sep 17 / Frs.)

GERMANY (Sep 17 / Dm.)

GREECE (Sep 17 / Drachma)

ITALY (Sep 17 / Lire)

NETHERLANDS (Sep 17 / Fls.)

NORWAY (Sep 17 / Kroner)

POLAND (Sep 17 / Zloty)

PORTUGAL (Sep 17 / Escudo)

SPAIN (Sep 17 / Pts.)

SWEDEN (Sep 17 / Kronor)

SWITZERLAND (Sep 17 / Frs.)

TURKEY (Sep 17 / Tk.Lira)

PACIFIC

JAPAN (Sep 17 / Yen)

HONG KONG (Sep 17 / H.K.$)

INDONESIA (Sep 17 / Rupiah)

MALAYSIA (Sep 17 / MYR)

NEW ZEALAND (Sep 17 / NZ $)

SINGAPORE (Sep 17 / S$)

AUSTRALIA (Sep 17 / Aust$)

SOUTH KOREA (Sep 17 / Won)

TAIWAN (Sep 17 / TW $)

THAILAND (Sep 17 / Baht)

AFRICA

SOUTH AFRICA (Sep 17 / Rand)

MONTREAL (Sep 17 / Can $)
4 pm close

NORTH AMERICA

CANADA

TORONTO (Sep 17 / Can $)
4 pm close

INDICES

	Sep 17	Sep 16	Sep 13	1996 High	1996 Low
Argentina					
General(29/12/77)	(u)	16732.42	16530.17	18881.85 20/5	15297.25 22/8
Australia					
All Ordinaries(1/1/80)	2254.4	2267.8	2252.3	2336.00 26/4	2086.70 17/7
All Mining(1/1/80)	957.8	968.5	963.5	1118.40 8/5	934.90 16/7
Austria					
Credit Aktien(30/12/84)	352.59	352.32	350.77	384.89 31/5	340.70 8/9
Traded Index(2/1/91)	1028.71	1023.36	1012.25	1142.51 28/5	976.27 2/1
Belgium					
BEL20(1/1/91)	1754.85	1760.28	1757.82	1773.28 28/5	1574.90 2/1
Brazil					
Bovespa(29/12/83)	(u)	65343.0	64643.0	69822.00 12/7	40801.98 2/1
Canada					
Metals Minls◆(1975)	(u)	5174.08	5159.31	5824.60 8/5	4667.47 16/1
Composite◆(1975)	(u)	5285.86	5243.30	5285.86 16/9	4738.70 15/1
Portfolio$$(4/1/83)	(u)	2578.32	2564.26	2578.32 16/9	2327.39 12/1
Chile					
IGPA Gen¥(31/12/80)	(u)	5381.81	5378.96	6804.33 8/1	5216.28 8/4
Denmark					
CopenhagenSE(3/1/83)	428.95	428.37	427.07	428.95 17/9	368.40 2/1
Finland					
HEX General(28/12/90)	2158.53	2152.77	2130.08	2158.53 17/9	1851.67 10/1
France					
SBF 250(31/12/90)	1410.94	1414.41	1411.50	1467.58 6/6	1238.16 2/1
CAC 40(31/12/87)	2080.86	2088.19	2080.37	2148.79 30/4	1897.85 11/1
Germany					
FAZ Aktien(31/12/58)	919.43	918.07	909.16	919.43 17/9	818.58 2/1
Commerzbank(1/12/53)	2680.80	2680.80	2651.80	2680.80 16/9	2379.10 2/1
DAX‡(30/12/87)	2626.08	2629.87	2595.96	2629.87 16/9	2284.85 2/1
Greece					
Athens SE(31/12/80)	985.84	974.20	958.19	1017.86 4/3	872.89 7/8
Hong Kong					
Hang Seng(31/7/64)	11621.81	11587.90	11369.04	11621.81 17/9	10204.87 2/1
India					
BSE Sens.(1979)	(c)	(c)	3347.37	4069.25 18/6	2826.08 25/1
Indonesia					
Jakarta Comp.(10/8/82)	561.84	554.40	549.03	630.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2576.95	2585.52	2584.85	2595.19 18/5	2234.81 2/1
Italy					
Banca Comm Ital(1972)	603.10	607.03	600.21	674.10 20/5	572.21 27/3
MIB General(2/1/86)	1022.0	1029.0	1017.0	1142.00 20/5	970.00 27/3
Japan					
Nikkei 225(16/5/49)	21310.59	(c)	20642.84	22666.80 26/6	19734.70 13/3
Nikkei 300(1/10/82)	299.24	(c)	293.65	318.70 26/6	284.49 11/3
Topix(4/1/68)	1604.96	(c)	1575.75	1722.13 26/6	1524.12 13/3
2nd Section(4/1/68)	2110.61	(c)	2091.91	2251.48 2/7	1982.78 14/3
Malaysia					
KLSE Comp.(4/4/86)	1134.88	1131.55	1117.50	1190.54 30/4	953.78 2/1
Mexico					
IPC(Nov 1978)	(u)	(c)	3311.81	3433.75 27/8	2736.39 8/3
Netherland					
CBS TRRtnGen(End 83)	652.4	656.4	652.4	656.40 16/9	539.80 2/1
CBS All Shr(End 83)	383.6	386.0	385.3	387.10 12/6	328.79 2/1
New Zealand					
Cap. 40(1/7/88)	2238.90	2221.45	2213.80	2243.82 10/9	2026.14 7/6
Norway					
Oslo SE Ind(2/1/83)	1401.04	1408.65	1405.78	1408.71 12/6	1258.88 30/1
Philippines					
Manila Comp(2/1/85)	3259.72	3223.67	3193.68	3394.48 5/7	2878.97 2/1
Portugal					
BTA 30(4/1/93)	1985.92	1999.38	2000.87	2009.79 10/9	1602.81 2/1
Singapore					
SES All-S'pore(2/4/75)	531.41	530.04	531.46	618.37 5/2	522.15 30/7
South Africa					
JSE Gold(28/9/78)	1776.5¥	1751.3	1765.4	2080.40 29/5	1346.40 2/1
JSE Ind(28/9/78)	8211.7¥	8185.5	8108.0	8739.30 25/1	7806.50 30/8
South Korea					
KoreaCompEx**(4/1/80)	781.78	781.88	785.19	986.84 7/5	753.35 28/8
Spain					
Madrid SE(30/12/85)	359.38	359.82	358.00	378.25 1/7	322.75 11/1
Sweden					
AffarsvarldsGen(1/2/37)	2086.9	2080.9	2062.2	2082.30 13/9	1709.80 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1767.82	1777.25	1778.33	1811.86 11/7	1516.19 17/1
SBC General(1/4/87)	1245.18	1253.85	1251.45	1284.98 11/7	1114.47 29/1
Taiwan					
Weighted Pr.**(30/6/66)	6478.44	6518.46	6471.63	6669.41 29/5	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	1050.35	1056.87	1039.85	1415.84 8/2	992.03 10/9
Turkey					
Istanbul Comp.(Jan 1986)	65944.7	65818.9	64779.2	73631.30 8/7	38779.20 2/1
WORLD					
MS Capital Intl(1/1/70)	780.2*	779.1	775.5	783.20 1/7	725.90 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1698.93	1700.97	1687.91	1709.78 4/7	1504.40 11/1
Euro Top-100(26/6/90)	1450.35	1458.12	1451.29	1458.28 28/4	1333.01 11/1
HSBC JC Drgs(31/12/88)	(u)	380.51	375.27	388.16 16/4	344.18 2/1
MS Emgs Emg(7/1/92)	161.54	161.05	159.82	165.91 4/7	147.35 2/1

US INDICES

Dow Jones	Sep 16	Sep 13	Sep 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5889.20	5838.52	5771.94	5889.20 (16/9)	5032.94 (10/1)	5889.20 (16/9/96)	41.22 (8/7/32)
Home Bonds	101.81	102.01	101.73	108.09 (14/2)	100.88 (15/7)	108.77 (15/10/93)	54.99 (1/10/81)
Transport	2069.89	2067.82	2042.50	2295.20 (22/5)	1862.71 (18/1)	2295.20 (22/5/96)	13.23 (8/7/32)
Utilities	220.08	218.56	215.39	234.80 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's High 5920.64 (5871.44) Low 5825.72 (5788.79) (Theoretical◆)
Day's high 5908.47 (5855.17) Low 5837.41 (5779.05) (Actual◆)

Standard and Poors	Sep 16	Sep 13	Sep 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	683.98	680.54	671.18	683.98 (16/9)	598.48 (10/1)	683.98 (16/9/96)	4.40 (1/6/32)
Industrials¶	808.49	804.09	795.25	808.49 (16/9)	702.07 (15/1)	808.49 (16/9/96)	3.52 (30/6/32)
Financial	71.94	71.66	70.45	71.94 (16/9)	58.67 (10/1)	71.94 (16/9/96)	7.13 (4/9/74)
NYSE Comp.	365.42	363.70	359.73	365.42 (16/9)	321.41 (10/1)	365.42 (16/9/96)	4.64 (25/4/42)
Amex Mkt Val	570.94	570.26	566.58	614.89 (22/5)	525.60 (16/7)	614.89 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1193.96	1188.57	1165.81	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (3/10/74)

■ RATIOS

	Sep 13	Sep 6	Aug 30	Year ago
Dow Jones Ind. Div. Yield	2.17	2.24	2.25	2.40
	Sep 11	Sep 4	Aug 28	Year ago
S & P Ind. Div. yield	2.02	2.06	2.02	2.11
S & P Ind. P/E ratio	21.84	21.50	21.77	19.35

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Pepsico	15,378,900	28¾	-1¼
Hanson	11,859,800	13	----
Micron Tech	8,752,400	25¾	+1⅛
Royal Dutch	8,450,100	157½	+3¼
Hewlett-Pck	5,495,000	47⅝	+1⅝
Motorola	5,005,900	50⅝	+1⅛
AT & T	4,494,100	56⅝	+1½
Amer Online	4,386,000	29	+2
Duracell	3,924,100	61½	-1
Gillette	3,804,300	68⅝	+1

■ TRADING ACTIVITY

● Volume (million)	Sep 16	Sep 13	Sep 12
New York SE	430.260	487.502	398.834
Amex	20.077	23.273	17.521
NASDAQ	586.051	647.855	555.509
NYSE			
Issues Traded	3,209	3,228	3,209
Rises	1,400	1,725	1,473
Falls	985	721	870
Unchanged	818	780	865
New Highs	195	220	152
New Lows	22	19	27

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x index)							
Sep	2092.0	2087.0	-6.5	2097.5	2076.0	18,169	29,464
Oct	2097.0	2092.0	-6.5	2102.5	2085.0	1,379	5,961
■ DAX							
Sep	2631.5	2630.0	-1.00	2637.0	2622.0	29,698	-
Dec	2648.5	2647.5	-1.50	2654.5	2640.0	16,301	-
■ OMX							
Sep	1616.00	1602.00	-10.25	1616.00	1597.00	3,605	20,316
Oct	1615.75	1603.50	-10.50	1621.00	1604.50	6,149	6,461
■ SOFFEX							
Sep	3736.5	3685.0	-43.0	3737.0	3679.0	7,808	21,288
Oct	3741.0	3689.0	-39.7	3741.0	3686.0	3,352	6,670

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Sep	-	684.70	...	-	-	20,426	74,981
Dec	691.00	691.90	+1.15	692.30	690.40	82,957	147,616

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Dec	21230.0	21340.0	+470.0	21400.0	21200.0	32,421	189,211
Mar	21210.0	21390.0	+650.0	21390.0	21210.0	583	908,476

Open interest figures for previous day.

** Sat Sep 14: Taiwan Weighted Price 6484.55; Korea Comp Ex 781.73. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. $$ Montreal ◆ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Sep 17 - 2626.43 -3.61

1 Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, September 17, 1996.

	Stocks Traded	Closing Prices	Change on day
NKK	8.3m	288	+6
Nippon Steel	6.9m	348	+3
Nomura Sec	5.4m	2,040	+30
Daiwa Sec	5.1m	1,290	+30
NEC	4.4m	1,190	+20
Toyota Motor	4.4m	2,780	+80
Bk Tok-Mitsubishi	4.3m	2,240	+70
Mitsubishi Hvy	4.3m	897	+28
Nikko Sec	4.2m	1,190	+20
Sumitomo Mtl Ind	4.1m	316	+8

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. ** Calendar year high and low. 4 Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. 1 Priced in US $.

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NEW YORK STOCK EXCHANGE PRICES

4 pm close September 17

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S -

Continued on next page

4 pm close September 17

NYSE PRICES

Continued from previous page

[illegible]

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sk-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

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AMEX PRICES

4 pm close September 17

[illegible]

NASDAQ NATIONAL MARKET

4 pm close September 17

[illegible]

AMERICA

Dow slides on renewed rate worries

Wall Street

Renewed interest rate worries sent US shares modestly lower at midsession although a strong earnings forecast from Intel, the world's largest semiconductor company, helped to boost technology shares, *writes Lisa Bransten in New York.*

At 1pm, the Dow Jones Industrial Average was off 17.02 at 5,872.18 and the Standard & Poor's 500 had lost 1.60 at 682.38. The American Stock Exchange composite fell 4.58 at 566.36. NYSE volume was 262m shares.

Shares jumped at the opening bell but quickly began to fall after a news agency reported that, according to an anonymous source, eight of 12 Federal Reserve officials favoured raising the discount rate. Both the Dow and the S & P 500 had soared to new records in the previous two sessions as weak economic data had led many investors to abandon fears of an interest rate increase.

Positive news from Intel helped the Nasdaq composite, which is about 40 per cent technology shares, to remain in positive territory, in spite of the interest rate worries. Intel shares jumped $5¼ or 6 per cent at $93⅞ after the company said late on Monday that it expected sales and profits for the third quarter to be stronger than it had previously indicated.

Near 1pm, the Nasdaq, which gained as much as 11.32 in early trading, was 5.85 stronger at 1,199.81. The Pacific Stock Exchange technology index advanced 1.1 per cent.

Some of the sharpest gains came in semiconductor and computer manufacturers. Among semiconductor companies, Texas Instruments added $1⅞ at $50⅝, LSI Logic rose $1⅛ at $23⅞ and Cirrus Logic was $1 stronger at $16⅞.

Rising computer companies included Dell Computer, $3¾ stronger at $82⅝, Gateway 2000, which added $2⅝ at $49⅝ and Compaq Computer, which climbed $2¼ to $63⅝.

Elsewhere, tobacco companies gained after a Florida court undermined efforts by the state to recoup healthcare benefits paid to victims of smoking-related illnesses. Shares in Philip Morris added $1⅞ at $93⅞, RJR Nabisco climbed $⅞ at $32⅞ and American Depositary Receipts of BAT Industries rose $⅜ at $14⅛.

Canada

TORONTO shrugged off a dull opening on Wall Street to notch up a modest advance during the morning. At noon, the TSE-300 composite index was 1.53 ahead at 5,267.39.

Among the 14 sub-groups in the index, merchandising scored the best gain, rising 2.8 per cent on the back of a C$7.50 jump to C$54.00 at Loewen Group. Mining stocks added 0.5 per cent. On the downside, real estate fell 0.4 per cent.

Among the blue chips, Alcan gained 50 cents to C$43.50 and Northern Telecom gained 10 cents to C$74.20. Canadian Pacific edded 15 cents to C$32.15.

Imperial Oil retreated 90 cents to C$58.00.

Mexico City higher

Mexico City was higher et midsession, led by the market heavyweight, Telmex, and fuelled by expectations that the benchmark 28-day Cetes rates would fall by at least 100 basis points at yestarday evening's primary euction.

Telmex A and L series shares were up 2.5 per cent and 1.8 per cent respectively after James Capel upgraded the stocks on Monday and ahead of quarterly results which were expected to be good.

The IPC index was 12.13 higher by midsession at 3,323.74.

BUENOS AIRES was flat at midsession taking its lead from Wall Street instead of the local political situation. The Merval index, which rose 1.2 per cent on Monday, stretching its gains over the past two weeks to 7 per cent, edged 0.8 down at midsession to 547.13.

S Africa rallies strongly

Johannesburg staged a solid turnaround in the second half of a busy session, recovering early losses and moving higher on the back of a firm Wall Street.

The industrial index finished 26.2 better at 8,211.7 elevating the overall index to 8,947.1, 20.8 higher. SA Breweries was up 250 cents to R133.75, Remgro gained R1 to R42.25, Standard Bank lifted R1 to R184 but Liberty lost 175 cents to R136.50.

Gold stocks gained upward momentum in afternoon dealings retracing the losses made at the futures expiry on Monday. The gold index ended 25.2 firmer at 1,776.5. Vaal Reefs rose R11 to R396.

Turnover was a healthy R518m which surprised those who had expected a sharp drop in activity in the wake of Monday's expiry of September equity index futures contracts.

EUROPE

Paris turns back after eight winning days

A dull morning on Wall Street finally got the better of PARIS and the market closed modestly lower to end an eight day winning streak. The CAC-40 index finished off 5.33 at 2,080.86.

The market, remarkably *steady for most of the day,* looked set to rack up another useful advance right up to the final hour of trading. By then, the earlier resilient mood had crumbled *and, amid signs of profit-taking,* shares came off intraday peaks.

Once again there was no shortage of special situations. Michelin was awarded *several rosettes by a market* pleased with the tyre giant's first half results. The shares added FFr5.10 to FFr265.2 as brokers upgraded profit forecasts for the full year.

Chemicals leader Rhône Poulenc was equally positive, gaining FFr1.0 to FFr139.4 following an upbeat presentation in Paris by its US unit, Rhône Poulenc Rorer.

Société Générale put on FFr5 to FFr590 in advance of today's interims. Cheuvreux de Virieu took Crédit Local de France off its list of recommended stocks, and the shares fell FFr5.2 to FFr439.8.

Dull interims from Hermes hit the luxury goods group, LVMH. The shares came off FFr36 to FFr1,130. Eridania Beghin-Say retreated FFr17 to *FFr760 ahead of tomorrow's* first half earnings.

FRANKFURT ended lower after pushing up to new intra-day highs at the opening bell. The futures market was *visibly weak ahead of* Friday's expiry for the DAX September contract.

According to dealers, there was no real weight of selling but eqnally no follow through from Monday's strong session. The Dax September future came off 7.0 to 2,624, and the DAX index ended 3.81 lower at an Ibis-indicated 2,626.43.

Retailers turned in some of the heaviest losses with Matro down DM1.20 at DM139.80 ahead of this week's interim results and Karstadt slipping DM8.00 to DM537.0.

MILAN continued to feel shock waves as Olivetti crashed another 10 per cent and then suffered repeated suspensions, limit down, as ebortive efforts were made to retrade tha share. Tha *stock finished L51 lower at* L465, taking losses since the start of last week to 41 per cent.

Yesterday's decline cama as investors awaited tha *troubled company's response* to a series of questions from the Consob bourse watchdog on its half year results. Analysts said that reports that the former chairman, Mr Carlo De Benedetti and the new chairman, Mr Antonio Tesone, were under investigation by the Ivrea prosecutor's office, concerning allegations of false accounting, broke too late to affect the market.

The broad market was weak and the Comit index finished 3.87 down at 603.16.

AMSTERDAM shares mostly marked time ahead of today's budget statement and Friday's index futures expiry. In subdued trading, the AEX index dipped 3.90 to 584.27.

Unilever shed Fl 4.70 guilders to Fl 285.10 on ice-cream worries. Kleinwort Benson reiterated its sell stance on the stock after dull results from rival UK ice-cream maker Treats.

Heineken racked up its first gain since Friday's disappointing results, thanks partly to short covering. The shares added *Fl 2.00* to Fl1,305.00.

ZURICH was pressured by Wall Street's opening losses and the SMI index fell 32.7 to 3,690.0, as derivative-linked transactions also put some blue chips under heavy pressure. Nestlé, selling *itself on* a US roadshow, remained under pressure triggered by last Friday's restrained outlook for the second half of the year. The shares fell SFr9 to SFr1,389.

SBC eased 75 centimes to SFr236.75 with news of today's unscheduled news conference coming after the market closed.

Esec, the high-tech group, rose SFr425 to SFr5,050.

HELSINKI was higher for a fourth straight day, encouraged by Nokia's gains on Wall Street, hnt prices were unable to maintain their best levels and the Hex index finished 3.86 ahead at 2,156.63. Nokia peaked at FM201, bnt found that level unsustainable. It still closed FM1 higher on the day at FM197.50.

ISTANBUL jumped 1.7 per cent, adding to Monday's 1.6 per cent advance, as investors demonstrated a positive view of tha ontlook and lower yields and a heavy demand at the day's 189-day T-bill auction contributed to market morale. The IMKB-100 index cloaed 1,125.81 *ahead at e day's high* of 66,944.77.

Written and edited by Michael Morgan and Jeffrey Brown

FT-SE Actuaries Share Indices

Sep 17								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1703.42	1701.43	1701.29	1700.53	1700.86	1701.24	1701.45	1698.93
FT-SE Eurotrack 200	1770.72	1769.95	1769.70	1768.43	1769.11	1768.70	1769.31	1765.61

	Sep 16	Sep 13	Sep 12	Sep 11	Sep 10
FT-SE Eurotrack 100	1700.97	1687.91	1676.88	1665.66	1666.48
FT-SE Eurotrack 200	1771.51	1763.06	1747.48	1735.18	1737.89

Base value 1000 (26/10/90): High/day: 100 - 1703.42; 200 - 1770.72 Low/day: 100 - 1698.25 200 - 1765.51. † Partial.

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	May 1996	June 1996	July 1996	Aug 1996	US $bn
Belgium	108.46	87.28	110.84	84.748	2.78
Denmark	32.62	37.96	30.62	32.90	5.76
Finland	21.78	15.36	11.77	13.99	3.13
France	241.28	247.55	295.40	131.51	26.01
Germany	157.42	200.66	187.73	124.14	83.99
Italy	65,792	54,928	52,068	41,628	27.52
Netherlands	55.70	44.20	46.70	42.10	25.41
Norway	39.93	32.28	24.40	29.80	4.65
Spain	1,497.97	1,436.43	1,566.70	892.84	7.14
Sweden	161.00	129.40	119.40	116.00	17.53
Switzerland	38.49	40.95	51.07	27.78	23.20
UK	62.59	55.35	60.15	54.10	84.53

Volumes represent purchases and sales.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

Holiday-induced inertia made for a sharp slowdown in trading activity on the European bourses last month. After a busy July, domestic volumes fell 26.3 per cent in August, with tha largest falls seen in France, Switzerland and Spain. The biggest gains in domestic volumes in August came in the Nordic markets, where late Juna and July is the traditional holiday period. In Norway, domestic volumes rose 22.1 per cent while in Finland domestic volumes were 18.9 per cent higher. Mr James Cornish at NatWest Securities says that, looking beyond the seasonal holiday factor, it is notable that August's domestic volumes were down 1.3 per cent on their year earlier levels. "Weakening volumes are not a good omen for the longer term prospects of the markets," he says.

ASIA PACIFIC

Nikkei jumps 2.3% to regain 21,000 point level

Tokyo

Japanese shares were pushed ahead by Wall Street's Monday night gains and the Nikkei index clawed back to the 21,000 level for the first time since late August, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index jumped 2.3 per cent, rising 467.95 to 21,310.59 after trading between 20,929.06 and 21,365.86 during the session. Domestic investors returned to the market, attracted by foreign buying of international blue chips.

Volume totalled 426m shares down from Friday's 705.7m, when turnover was inflated hy the settlement of Nikkei September futures and options contrects. Improved sentiment helped the futures market, prompting arbitrage huying.

The Topix index of all first section stocks rosa 29.21, or 1.9 per cent, to 1,604.96 and the Nikkei 300 gained 5.59 to 299.24. Advancea overwhelmed declines by 1,042 to 127, with 93 issues remaining *unchanged.*

In London, the ISE/Nikkei 50 index rose 0.08 to 1,441.65.

Export-oriented international blue chips were higher. Toyota Motor rose Y60 to Y2,780, Nissan Motor gained Y19 to Y888 and Honda Motor rose Y50 to Y2,790.

High-technology stocks were also higher with NEC up Y20 to Y1,190, and Hitachi adding Y10 to Y1,030. Sony, unaffected by its personnel reshuffle at its US entertainment subsidiary, rose Y70 to Y7,020.

Domestic demand helped steel sbares. Nippon Steel edged up Y3 to Y348, Kawasaki Steel gained Y10 to Y373. NKK, the most active issue of the day, added Y6 to Y288.

Broking stocks, depressed recently on worries about weak earnings as a result of sluggish stock market activity in July and August, rebounded. Nikko Securities, which lowered first half earnings forecasts after the market closed, rose Y30 to Y1,190, Daiwa Securities added Y30 to Y1,290.

Some petroleum refiners and distributors, pushed higher in recent sessions by oil price strength, were among the few losing sectors. Showa Shell Sekiyu fell Y10 to Y1,140 as the profit-takers moved in. Cosmo Oil dipped Y13 to Y822 and Arabian Oil lost Y20 to Y4,800.

In Osaka, the OSE average rose 439.37 to 22,079.63 in volume of 39.2m shares. Nintendo, the video game maker, rallied Y400 to Y7,500.

Roundup

Wall Street's highs and the view that a near term rate rise would not hit stocks hard helped HONG KONG to maintain an upward track to close at its highest level *since February 1994.*

The Hang Seng Index closed up 53.71 at 11,621.61, off a peak of 11,645.35, in hefty turnover of HK$7bn.

Swire Pacific was the star blue chip, gaining HK$1 to HK$69.50, on improved sentiment surrounding the residential property market.

Hutchison put on 70 cents to HK$49.80 and China Light added 20 cents to HK$34.50.

China-incorporated H shares significantly underperformed the market, with the Hang Seng Chinesa Enterprise Index showing e decline of 0.5 per cent.

SINGAPORE closed sharply higher with property stocks and selected hlne chips posting smart advances. The Straits Times industrials index closed 34.56 higher at the day's high of 2,169.05.

City Developments jumped 70 cents higher to S$12.20 pushing the SES Property index up 2.6 per cent.

KUALA LUMPUR attracted active demand from European funds for a second straight day and the composite index finished 3.53 higher at 1,134.68, in volume that picked up sharply to 372m shares.

Among leading index stocks, Tenaga and Telekom each rose 10 cents to M$9.00 and M$21.70.

WELLINGTON gained ground as bid activity provoked buying interest. The 40-cap index rose 17.44 to 2,238.90.

Bid target Wilson and Horton, the publishing group, jumped almost 11 per cent on news of an offer from Independent Newspapers of Ireland, which already owns 45 per cent of Wilson. The stock ended up NZ$1.05 at NZ$10.75. Other media stocks were active, notably INL, which added 35 cents to NZ$5.90.

SYDNEY closed lower after a setback for resource stocks on the back of softer base metals prices. The All Ordinaries closed 13.4 off at 2,254.4.

Blue chip resource shares did most of the damage with BHP closing 48 cents down at A$16.00. CRA dipped six cents to A$18.50 and WMC shed eight cents to A$8.27. Turnover in the sector was described as busy.

Banks continued to improve, National Australia Bank gained 16 cents to A$12.71.

TAIPEI reversed a strong start to end lower. The weighted index ended 40.02 lighter at 6,478.44 after a session best of 6,552.27. Electronics stayed on the upside. Holtek Microelectronics gained T$1 to T$31.9.

BANGKOK was easier on the eve of today's crucial parliamentary no-confidence debate. Dealers said the four day rally had sparked modest profit-taking. The SET index came off 8.52 to 1,050.35.

SHANGHAI was again pressured by concerns that Beijing would tighten up on domestic investors trading in hard currency B shares and the index fell 0.343 to 50.059.

The market has been on a downward trend for the last six weeks, losing almost 6 per cent since mid-August, on worries about new regulations and some poor corporate results posted in July and August.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	MONDAY SEPTEMBER 16 1996								FRIDAY SEPTEMBER 13 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	203.63	0.1	194.10	142.20	159.96	171.98	0.7	4.43	203.73	194.31	142.21	160.19	170.83	212.16	179.77	190.51
Austria (24)	176.90	1.0	168.36	123.34	138.75	138.67	0.8	2.03	175.11	167.01	122.23	137.68	137.61	195.04	168.11	176.71
Belgium (27)	217.53	0.4	207.14	151.75	170.71	166.72	0.2	3.99	216.57	206.55	151.17	170.26	166.42	218.69	186.68	186.99
Brazil (28)	183.63	0.8	174.86	128.10	144.10	344.48	0.7	1.89	182.21	173.78	127.16	143.27	341.67	189.70	123.97	158.91
Canada (117)	167.28	0.4	159.30	116.70	131.28	166.01	0.5	2.16	166.64	158.93	116.32	131.02	165.23	167.28	134.14	144.06
Denmark (30)	320.07	0.4	304.79	223.29	251.18	253.00	0.1	1.82	318.80	304.06	222.53	250.67	252.68	321.04	278.89	262.10
Finland (23)	212.78	1.8	202.60	148.43	166.97	203.10	1.4	2.48	208.85	199.16	145.78	164.21	200.38	275.49	171.73	275.49
France (93)	195.00	0.5	185.68	136.04	153.03	157.28	0.2	3.09	193.97	185.00	135.39	152.51	156.92	198.39	167.70	173.17
Germany (56)	177.93	1.4	166.43	124.13	139.63	139.63	1.2	1.76	175.41	167.30	122.44	137.92	137.92	177.93	155.66	161.09
Hong Kong (58)	440.72	1.5	416.68	307.46	345.86	437.52	1.5	3.48	434.17	414.06	303.05	341.37	431.00	451.18	354.57	383.00
Indonesia (27)	200.26	1.5	190.70	139.71	157.16	285.39	1.5	1.68	167.27	188.14	137.70	155.11	281.12	–	–	–
Ireland (16)	293.53	0.6	279.52	204.78	230.35	256.76	0.4	3.49	281.80	278.31	203.68	229.44	255.74	293.53	241.27	246.77
Italy (58)	75.24	0.0	71.65	52.49	59.05	85.63	–0.3	2.51	75.23	71.75	52.51	59.15	85.85	84.53	67.22	80.02
Japan (481)	143.73	0.1	136.87	100.27	112.80	100.27	0.0	0.76	143.66	137.01	100.27	112.85	100.27	164.66	137.75	144.77
Malaysia (107)	565.65	1.8	538.65	394.62	443.91	544.18	1.7	1.20	556.87	530.15	388.00	437.06	534.89	585.09	425.77	498.75
Mexico (19)	1264.20	0.0	1203.85	881.94	992.10	10387.32	–0.0	1.29	1264.28	1205.80	882.48	994.08	10387.32	1325.65	791.99	1175.64
Netherland (18)	301.63	0.3	287.51	210.63	236.94	233.21	0.1	3.10	300.97	287.05	210.08	236.65	232.65	304.24	250.13	252.23
New Zealand (15)	85.73	0.5	81.64	59.81	67.28	65.52	0.6	4.18	85.32	81.38	69.56	67.09	65.12	86.66	75.94	79.57
Norway (36)	254.94	0.7	242.77	177.85	200.07	223.75	0.4	2.15	253.16	241.45	176.71	199.06	222.83	256.94	222.24	232.50
Philippines (22)	207.35	1.1	187.45	144.65	162.72	271.05	1.1	0.59	205.12	195.63	143.18	161.28	268.08	–	–	–
Singapore (44)	399.81	0.8	380.72	278.92	313.75	260.02	1.1	1.08	395.09	377.77	276.47	311.43	257.33	465.21	380.49	389.22
South Africa (44)	352.98	1.2	336.18	246.25	277.01	346.17	0.9	2.19	348.87	332.73	243.52	274.31	343.21	437.79	314.20	353.28
Spain (37)	177.94	0.9	169.44	124.14	139.64	171.50	0.6	3.42	176.29	168.13	123.05	138.61	170.47	183.85	145.15	152.42
Sweden (48)	375.98	0.8	358.03	262.29	295.06	369.22	–0.2	2.31	373.90	356.61	260.99	293.99	369.88	375.98	294.19	311.65
Switzerland (37)	245.28	0.3	233.58	171.12	192.48	188.53	0.2	1.57	244.64	233.32	170.76	192.35	188.19	254.34	204.64	205.53
Thailand (45)	139.39	1.8	132.73	97.24	109.39	137.46	1.8	2.49	136.91	130.58	95.56	107.65	134.99	189.95	128.80	168.90
United Kingdom (200)	250.30	0.4	238.35	174.62	196.43	238.35	0.2	4.01	249.34	237.81	174.04	196.05	237.81	250.30	220.57	223.76
USA (623)	278.60	0.5	265.30	194.36	218.63	278.60	0.5	2.13	277.25	264.43	193.52	218.00	277.25	278.60	236.38	238.39
Americas (787)	254.73	0.5	242.57	177.71	199.90	214.21	0.5	2.12	253.52	241.79	176.96	199.33	213.16	254.73	215.17	218.22
Europe (706)	217.74	0.6	207.34	131.90	170.87	189.25	0.3	3.02	218.52	206.50	161.13	170.24	188.60	217.74	191.44	193.98
Nordic (137)	322.00	0.7	306.63	224.64	252.68	277.34	0.1	2.24	319.71	304.92	223.18	251.38	276.86	322.00	261.13	291.99
Pacific Basin (878)	158.26	0.3	150.73	110.42	124.21	112.19	0.3	1.23	157.85	150.55	110.18	124.11	111.89	177.01	148.89	156.06
Euro-Pacific (1584)	182.92	0.4	174.18	127.61	143.55	141.24	0.3	2.12	182.16	173.73	127.15	143.28	140.81	190.57	166.51	171.76
North America (740)	271.79	0.5	258.81	189.51	213.29	271.12	0.5	2.13	270.48	257.97	188.80	212.68	269.82	271.79	230.17	232.58
Europe Ex. UK (506)	195.44	0.7	186.11	136.35	153.38	181.31	0.4	2.46	194.16	185.18	135.52	152.66	180.65	195.76	170.51	173.73
Pacific Ex. Japan (397)	289.00	1.1	275.20	201.62	226.80	249.49	1.3	2.96	285.88	272.65	199.54	224.78	246.37	295.65	243.59	262.40
World Ex. US (1792)	184.66	0.4	175.84	128.82	144.81	146.13	0.3	2.11	183.87	175.36	128.34	144.57	145.66	191.55	167.38	172.97
World Ex. UK (2215)	210.46	0.5	200.41	146.82	165.16	178.92	0.4	1.92	209.50	199.80	146.23	164.72	178.18	213.05	185.61	190.03
World Ex. Japan (1934)	251.60	0.6	239.59	175.52	167.45	237.81	0.5	2.48	250.20	238.62	174.64	196.72	236.63	251.60	217.28	219.97
The World Index (2415)	213.89	0.5	203.68	149.22	167.86	184.22	0.4	2.12	212.93	203.08	148.63	167.42	183.49	214.85	186.87	192.98

CONSTITUENT CHANGE 18/9/96: Name change: Sparekassen Bikuben to BG Bank (Denmark). Markets closed 16/9/96: Japan and Mexico. CONSTITUENT CHANGE 18/9/96: Deletion: Transocean (Norway). Latest prices were unavailable for this edition.